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EDITOR'S NOTE

On the off chance that not every reader devours or retains what is set down here, we return to a theme we have touched on before. It is that of our editorial policy on foreign policy issues that have moved clearly to the stage of acute public debate and congressional consideration.

Two such cases at this moment are the SALT agreements and the multilateral trade agreement. On SALT, we have had four directly relevant articles in the past year, covering the shape of the agreements in some detail and arguing their merits from different standpoints. After careful consideration, we decided that any final article or series of articles would deal mostly with arguments already being widely aired elsewhere. On the other hand, the emerging issue of NATO theater nuclear weapons—which may or may not bulk large in Senate discussion of SALT II—seemed to us to call for the two articles in this issue.

In the case of the trade agreements, the problem is different. Reluctantly, we have felt that manuscripts recently considered and directly addressed to the agreements were either too broad-brush or confined to corners of a most complex subject. Some of the most basic issues happen to recur in many recent articles, including that of Dr. Okita in this issue.

But if we are to rely largely on having already had articles foreshadowing central issues, the corollary may be that we should do something more to make such articles available in handy form, to our regular readers as well as to a possible wider public. Members of our Editorial Advisory Board made such a suggestion recently on a general basis, that we publish separately, in pamphlet form or as small paperback books, groups of articles of continuing relevance to current issues whether or not before Congress. Such compilations may also have teaching uses. So we have plans along these lines and would welcome comment from our readers as to topics.

The articles in FOREIGN AFFAIRS *do not represent any consensus of beliefs. We do not expect that readers of the review will sympathize with all the sentiments they find there, for some of our writers will flatly disagree with others; but we hold that while keeping clear of mere vagaries* FOREIGN AFFAIRS *can do more to inform American public opinion by a broad hospitality to divergent ideas than it can by identifying itself with one school. It does not accept responsibility for the views expressed in any articles, signed or unsigned, which appear in its pages. What it does accept is the responsibility for giving them a chance to appear there.* The Editors.

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Michael Howard

THE FORGOTTEN DIMENSIONS OF STRATEGY

The term "strategy" needs continual definition. For most people, Clausewitz's formulation "the use of engagements for the object of the war," or, as Liddell Hart paraphrased it, "the art of distributing and applying military means to fulfill the ends of policy," is clear enough. Strategy concerns the deployment and use of armed forces to attain a given political objective. Histories of strategy, including Liddell Hart's own *Strategy of Indirect Approach,* usually consist of case studies, from Alexander the Great to MacArthur, of the way in which this was done. Nevertheless, the experience of the past century has shown this approach to be inadequate to the point of triviality. In the West the concept of "grand strategy" was introduced to cover those industrial, financial, demographic, and societal aspects of war that have become so salient in the twentieth century; in communist states all strategic thought has to be validated by the holistic doctrines of Marxism-Leninism. Without discarding such established concepts, I shall offer here a somewhat different and perhaps slightly simpler framework for analysis, based on a study of the way in which both strategic doctrine and warfare itself have developed over the past 200 years. I shall also say something about the implications of this mode of analysis for the present strategic posture of the West.

II

Clausewitz's definition of strategy was deliberately and defiantly simplistic. It swept away virtually everything that had been written about war (which was a very great deal) over the previous 300 years. Earlier writers had concerned themselves almost exclusively with the enormous problems of raising, arming, equipping, moving, and maintaining armed forces in the field—an approach which Clausewitz dismissed as being as relevant to fighting as the skills of the swordmaker were to the art of fencing. None of this,

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he insisted, was significant for the actual conduct of war, and the inability of all previous writers to formulate an adequate theory had been due to their failure to distinguish between the *maintenance* of armed forces and their *use.*

By making this distinction between what I shall term the *logistical* and the *operational* dimensions in warfare, Clausewitz performed a major service to strategic thinking; but the conclusions he drew from that distinction were questionable and the consequences of those conclusions have been unfortunate. In the first place, even in his own day, the commanders he so much admired—Napoleon, Frederick the Great—could never have achieved their operational triumphs if they had not had a profound understanding of the whole range of military activities that Clausewitz excluded from consideration. In the second place, no campaign can be understood, and no valid conclusions drawn from it, unless its logistical problems are studied as thoroughly as the course of operations; and as Dr. Martin van Creveld has recently pointed out in his book *Supplying War,* logistical factors have been ignored by ninety-nine military historians out of a hundred—an omission which has warped their judgments and made their conclusions in many cases wildly misleading.

Clausewitz's dogmatic assertion of priorities—his subordination of the logistical element in war to the operational—may have owed something to a prejudice common to all fighting soldiers in all eras. It certainly owed much to his reaction against the supercautious "scientific" generals whose operational ineptitude had led Prussia to defeat in 1806. But it cannot be denied that in the Napoleonic era it *was* operational skill rather than sound logistical planning that proved decisive in campaign after campaign. And since Napoleon's campaigns provided the basis for all strategic writings and thinking throughout the nineteenth century, "strategy" became generally equated in the public mind with *operational* strategy.

But the inadequacy of this concept was made very clear, to those who studied it, by the course of the American Civil War. There the masters of operational strategy were to be found, not in the victorious armies of the North, but among the leaders of the South. Lee and Jackson handled their forces with a flexibility and an imaginativeness worthy of a Napoleon or a Frederick; nevertheless they lost. Their defeat was attributed by Liddell Hart, whose analyses seldom extended beyond the operational plane, primarily to operational factors, in particular, to the "indirect

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approach" adopted by Sherman. But, fundamentally, the victory of the North was due not to the operational capabilities of its generals, but to its capacity to mobilize its superior industrial strength and manpower into armies which such leaders as Grant were able, thanks largely to road and river transport, to deploy in such strength that the operational skills of their adversaries were rendered almost irrelevant. Ultimately the latter were ground down in a conflict of attrition in which the *logistical* dimension of strategy proved more significant than the operational. What proved to be of the greatest importance was the capacity to bring the largest and best-equipped forces into the operational theater and to maintain them there. It was an experience that has shaped the strategic doctrine of the U.S. armed forces from that day to this.

But this capacity depended upon a third dimension of strategy, and one to which Clausewitz was the first major thinker to draw attention: the *social,* the attitude of the people upon whose commitment and readiness for self-denial this logistical power ultimately depended. Clausewitz had described war as "a remarkable trinity," composed of its political objective, of its operational instruments, and of the popular passions, the social forces it expressed. It was the latter, he pointed out, that made the wars of the French Revolution so different in kind from those of Frederick the Great, and which would probably so distinguish any wars in the future. In this he was right.

With the end of the age of absolutism, limited wars of pure policy fought by dispassionate professionals became increasingly rare. Growing popular participation in government meant popular involvement in war, and so did the increasing size of the armed forces which nineteenth-century technology was making possible and therefore necessary. Management of, or compliance with, public opinion became an essential element in the conduct of war. Had the population of the North been as indifferent to the outcome of the Civil War as the leaders of the Confederacy had initially hoped, the operational victories of the South in the early years might have decisively tipped the scales. The logistical potential of the North would have been of negligible value without the determination to use it. But given equal resolution on both sides, the capacity of the North to mobilize superior forces ultimately became the decisive factor in the struggle. Again Clausewitz was proved right: *all other factors being equal,* numbers ultimately proved decisive.

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III

In one respect, in particular, other factors were equal. The Civil War was fought with comparable if not identical weapons on both sides, as had been the revolutionary wars in Europe. The possibility of decisive *technological* superiority on one side or the other was so inconceivable that Clausewitz and his contemporaries had discounted it. But within a year of the conclusion of the American Civil War, just such a superiority made itself apparent in the realm of small arms, when the Prussian armies equipped with breech-loading rifles defeated Austrian armies which were not so equipped. Four years later, in 1870, the Prussians revealed an even more crushing superiority over their French adversaries thanks to their steel breech-loading artillery. This superiority was far from decisive: the Franco-Prussian War in particular was won, like the American Civil War, by superior logistical capability based upon a firm popular commitment. But technology, as an independent and significant dimension, could no longer be left out of account.

In naval warfare, the crucial importance of technological parity had been apparent since the dawn of the age of steam, and in colonial warfare the technological element was to prove quite decisive. During the latter part of the nineteenth century, the superiority of European weapons turned what had previously been a marginal technological advantage over indigenous forces, often counterbalanced by numerical inferiority, into a crushing military ascendancy, which made it possible for European forces to establish a new imperial dominance throughout the world over cultures incapable of responding in kind. As Hilaire Belloc's Captain Blood succinctly put it: "Whatever happens, we have got/The Maxim gun, and they have not." Military planners have been terrified of being caught without the contemporary equivalent of the Maxim gun from that day to this.

So by the beginning of this century, war was conducted in these four dimensions: the *operational,* the *logistical,* the *social,* and the *technological.* No successful strategy could be formulated that did not take account of them all, but under different circumstances, one or another of these dimensions might dominate. When, in 1914–15, the operational strategy of the Schlieffen Plan, for the one side, and of the Gallipoli campaign, for the other, failed to achieve the decisive results expected of them, then the logistical aspects of the war, and with them the social basis on which they depended, assumed even greater importance as the opposing

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armies tried to bleed each other to death. As in the American Civil War, victory was to go, not to the side with the most skillful generals and the most courageous troops, but to that which could mobilize the greatest mass of manpower and firepower and sustain it with the strongest popular support.

The inadequacy of mere numbers without social cohesion behind them was demonstrated by the collapse of the Russian Empire in 1917. But the vulnerability even of logistical and social power if the adversary could secure a decisive technological advantage was equally demonstrated by the success of the German submarine campaign in the spring of 1917, when the Allies came within measurable distance of defeat. The German Empire decided to gamble on a technological advantage to counter the logistical superiority which American participation gave to their enemies. But they lost.

IV

From the experiences of the First World War, different strategic thinkers derived different strategic lessons. In Western Europe, the most adventurous theorists considered that the technological dimension of war would predominate in the future. The protagonists of armored warfare in particular believed that it might restore an operational decisiveness unknown since the days of Napoleon himself—the first two years of the Second World War were to prove them right. Skillfully led and well-trained armed forces operating against opponents who were both militarily and morally incapable of resisting them achieved spectacular results.

But another school of thinkers who placed their faith in technology fared less well; this school included those who believed that the development of air power would enable them to eliminate the operational dimension altogether and to strike directly at the roots of the enemy's *social* strength, at the will and capacity of the opposing society to carry on the war. Instead of wearing down the morale of the enemy civilians through the attrition of surface operations, air power, its protagonists believed, would be able to attack and pulverize it directly.

The events of the war were to disprove this theory. Technology was not yet sufficiently advanced to be able to eliminate the traditional requirements of operational and logistical strategy in this manner. Neither the morale of the British nor that of the German people was to be destroyed by air attack; indeed, such attack was found to demand an operational strategy of a new and

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complex kind in order to defeat the opposing air forces and to destroy their logistical support. But operational success in air warfare, aided by new technological developments, did eventually enable the Allied air forces to destroy the entire logistical framework that supported the German and Japanese war effort, and rendered the operational skills, in which the Germans excelled until the very end, as ineffective as those of Jackson and Lee.

Technology had not in fact transformed the nature of strategy. It, of course, remained of vital importance to keep abreast of one's adversary in all major aspects of military technology, but given that this was possible, the lessons of the Second World War seemed little different from those of the First. The social base had to be strong enough to resist the psychological impact of operational setbacks and to support the largest possible logistical buildup by land, sea and air. The forces thus raised had then to be used progressively to eliminate the operational options open to the enemy and ultimately to destroy his capacity to carry on the war.

v

The same conclusions, set out in somewhat more turgid prose, were reached by the strategic analysts of the Soviet Union—not least those who in the late 1940s and early 1950s were writing under the pen name of J. V. Stalin. But Marxist military thinkers, without differing in essentials from their contemporaries in the West, naturally devoted greater attention to the social dimension of strategy—the structure and cohesiveness of the belligerent societies. For Soviet writers this involved, and still involves, little more than the imposition of a rigid stereotype on the societies they study. Their picture of a world in which oppressed peoples are kept in a state of backward subjection by a small group of exploitative imperialist powers, themselves domestically vulnerable to the revolutionary aspirations of a desperate proletariat, bears little resemblance to the complex reality, whatever its incontestable value as a propagandistic myth. As a result their analysis is often hilariously inaccurate, and their strategic prescriptions either erroneous or banal.

But the West is in no position to criticize. The stereotypes which we have imposed, consciously or unconsciously, on the political structures that surround us, have in the past been no less misleading. The cold war image of a world which would evolve peacefully, if gradually, toward an Anglo-Saxon style of democracy under Western tutelage if only the global Soviet-directed Marxist con-

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spiracy could be eradicated was at least as naïve and ill-informed as that of the Russian dogmatists. It was the inadequacy of the sociopolitical analysis of the societies with which we were dealing that lay at the root of the failure of the Western powers to cope more effectively with the revolutionary and insurgency movements that characterized the postwar era, from China in the 1940s to Vietnam in the 1960s. For in these, more perhaps than in any previous conflicts, war really was the continuation of political activity with an admixture of other means; and that political activity was itself the result of a huge social upheaval throughout the former colonial world which had been given an irresistible impetus by the events of the Second World War. Of the four dimensions of strategy, the social was here incomparably the most significant; and it was the perception of this that gave the work of Mao Zedong and his followers its abiding historical importance.

Military thinkers in the West, extrapolating from their experience of warfare between industrial states, naturally tended to seek a solution to what was essentially a conflict on the social plane either by developing operational techniques of "counterinsurgency," or in the technological advantages provided by such developments as helicopters, sensors or "smart" bombs. When these techniques failed to produce victory, military leaders, both French and American, complained, as had the German military leaders in 1918, that the war had been "won" militarily but "lost" politically—as if these dimensions were not totally interdependent.

In fact, these operational techniques and technological tools were now as ancillary to the main sociopolitical conflict as the tools of psychological warfare had been to the central operational and logistical struggle in the two world wars. In those conflicts, fought between remarkably cohesive societies, the issue was decided by logistic attrition. Propaganda and subversion had played a marginal role, and such successes as they achieved were strictly geared to those of the armed forces themselves. Conversely, in the conflicts of decolonization which culminated in Vietnam, operational and technological factors were subordinate to the sociopolitical struggle. If that was not conducted with skill and based on a realistic analysis of the societal situation, no amount of operational expertise, logistical backup or technical know-how could possibly help.

VI

If the social dimension of strategy has become dominant in one form of conflict since 1945, in another it has, if one is to believe

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the strategic analysts, vanished completely. Works about nuclear war and deterrence normally treat their topic as an activity taking place almost entirely in the technological dimension. From their writings not only the sociopolitical but the operational elements have quite disappeared. The technological capabilities of nuclear arsenals are treated as being decisive in themselves, involving a calculation of risk and outcome so complete and discrete that neither the political motivation for the conflict nor the social factors involved in its conduct—nor indeed the military activity of fighting—are taken into account at all. In their models, governments are treated as being as absolute in their capacity to take and implement decisions, and the reaction of their societies are taken as little into account as were those of the subjects of the princes who conducted warfare in Europe in the eighteenth century. Professor Anatole Rapoport, in a rather idiosyncratic introduction to a truncated edition of Clausewitz's *On War,* called these thinkers "Neo-Clausewitzians." It is not easy to see why. Every one of the three elements that Clausewitz defined as being intrinsic to war—political motivation, operational activity and social participation—are completely absent from their calculations. Drained of political, social and operational content, such works resemble rather the studies of the eighteenth-century theorists whom Clausewitz was writing to confute, and whose influence he considered, with good reason, to have been so disastrous for his own times.

But the question insistently obtrudes itself: in the terrible eventuality of deterrence failing and hostilities breaking out between states armed with nuclear weapons, how will the peoples concerned react, and how will their reactions affect the will and the capacity of their governments to make decisions? And what form will military operations take? What, in short, will be the social and the operational dimensions of a nuclear war?

It is not, I think, simply an obsession with traditional problems that makes a European thinker seek an answer to these questions. If nuclear war breaks out at all, it is quite likely to break out here. And in Europe such a conflict would involve not simply an exchange of nuclear missiles at intercontinental range, but a struggle between armed forces for the control of territory, and rather thickly populated territory. The interest displayed by Soviet writers in the conduct of such a war, which some writers in the West find so sinister, seems to me no more than common sense. If such a war does occur, the operational and logistical problems it will pose will need to have been thoroughly thought through. It

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is not good enough to say that the strategy of the West is one of deterrence, or even of crisis management. It is the business of the strategist to think what to do if deterrence fails, and if Soviet strategists are doing their job and those in the West are not, it is not for us to complain about them.

But it is not only the operational and logistical dimensions that have to be taken into account; so also must the societal. Here the attention devoted by Soviet writers to the importance of the stability of the social structure of any state engaged in nuclear war also appears to me to be entirely justifiable, even if their conclusions about contemporary societies, both their own and ours, are ignorant caricatures.

About the operational dimension in nuclear war, Western analysts have until recently been both confused and defeatist. In spite of the activities of Defense Secretary Robert McNamara and his colleagues nearly 20 years ago, and in spite of the lip service paid to the concept of "flexible response," the military forces in Western Europe are still not regarded as a body of professionals, backed up where necessary by citizen-soldiers, whose task it will be to repel any attack upon their own territories and those of their allies. Rather they are considered as an expendable element in a complex mechanism for enhancing the credibility of nuclear response. Indeed, attempts to increase their operational effectiveness are still sometimes opposed on the grounds that to do so would be to reduce the credibility of nuclear retaliation.

But such credibility depends not simply on a perceived balance, or imbalance, of weapons systems, but on perceptions of the nature of the society whose leaders are threatening such retaliation. Peoples who are not prepared to make the effort necessary for operational defense are even less likely to support a decision to initiate a nuclear exchange from which they will themselves suffer almost inconceivable destruction, even if that decision is taken at the lowest possible level of nuclear escalation. And if such a decision were taken over their heads, they would be unlikely to remain sufficiently resolute and united to continue to function as a cohesive political and military entity in the aftermath. The maintenance of adequate armed forces in peacetime, and the will to deploy and support them operationally in war, is in fact a symbol of that social unity and political resolve which is as essential an element in nuclear deterrence as any invulnerable second-strike capability.

So although the technological dimension of strategy has certainly become of predominant importance in armed conflict be-

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tween advanced societies in the second half of the twentieth century—as predominant as the logistical dimension was during the first half—the growing political self-awareness of those societies and, in the West at least, their insistence on political participation have made the social dimension too significant to be ignored. There can be little doubt that societies, such as those of the Soviet Union and the People's Republic of China, which have developed powerful mechanisms of social control, enjoy an apparent initial advantage over those of the West, which operate by a consensus reached by tolerating internal disagreements and conflicts; though how great that advantage would actually prove under pressure remains to be seen.

Whatever one's assessment of their strength, these are factors that cannot be left out of account in any strategic calculations. If we do take account of the social dimension of strategy in the nuclear age, we are likely to conclude that Western leaders might find it much more difficult to initiate nuclear war than would their Soviet counterparts—and, more important, would be perceived by their adversaries as finding it more difficult. If this is the case, and if on their side the conventional strength of the Soviet armed forces makes it unnecessary for their leaders to take such an initiative, the operational effectiveness of the armed forces of the West once more becomes a matter of major strategic importance, both in deterrence and in defense.

Most strategic scenarios today are based on the least probable of political circumstances—a totally unprovoked military assault by the Soviet Union, with no shadow of political justification, on Western Europe. But Providence is unlikely to provide us with anything so straightforward. Such an attack, if it occurred at all, would be likely to arise out of a political crisis in central Europe over the rights and wrongs of which Western public opinion would be deeply and perhaps justifiably divided. Soviet military objectives would probably extend no farther than the Rhine, if indeed that far. Under such conditions, the political will of the West to initiate nuclear war might have to be discounted entirely, and the defense of West Germany would depend not on our nuclear arsenals but on the operational capabilities of our armed forces, fighting as best they could and for as long as they could without recourse to nuclear weapons of any kind. And it need hardly be said that hostilities breaking out elsewhere in the world are likely, as they did in Vietnam, to arise out of political situations involving an even greater degree of political ambiguity, in which our readiness to initiate nuclear war would appear even less credible.

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The belief that technology has somehow eliminated the need for operational effectiveness is, in short, no more likely to be valid in the nuclear age than it was in the Second World War. Rather, as in that war, technology is likely to make its greatest contribution to strategy by improving operational weapons systems and the logistical framework that makes their deployment possible. The transformation in weapons technology which is occurring under our eyes with the development of precision-guided munitions suggests that this is exactly what is now happening. The new weapons systems hold out the possibility that operational skills will once more be enabled, as they were in 1940–41, to achieve decisive results, either positive in the attack or negative in the defense. But whether these initial operational decisions are then accepted as definitive by the societies concerned, will depend, as they did in 1940–41 and in all previous wars, on the two other elements in Clausewitz's trinity: the importance of the political objective, and the readiness of the belligerent communities to endure the sacrifices involved in prolonging the war.

These sacrifices might or might not include the experience, on whatever scale, of nuclear war, but they would certainly involve living with the day-to-day, even the hour-to-hour, possibility that the war might "go nuclear" at any moment. It is not easy to visualize a greater test of social cohesion than having to endure such a strain for a period of months, if not years, especially if no serious measures had been taken for the protection of the civil population.

Such measures were projected in the United States two decades ago, and they were abandoned for a mixture of motives. There was, on the one hand, the appreciation that not even the most far-reaching of preparations could prevent damage being inflicted on a scale unacceptable to the peoples of the West. On the other was the reluctance of those peoples to accept, in peacetime, the kind of social disruption and the diversion of resources which such measures would involve. The abandonment of these programs was then rationalized by the doctrine of Mutually Assured Destruction. And any attempt by strategic thinkers to consider what protective measures might have to be taken if the war which everyone hoped to avoid actually came about was frowned on as a weakening of deterrence. But here again, there seem to have been no such inhibitions in the Soviet Union; and their civil defense program, which some Western thinkers find so threatening, like that of the Chinese, seems to me no more than common sense. It is hard not to envy governments which have the capacity to carry through such measures, however marginally they might

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enhance the survivability of their societies in the event of nuclear war.

The Western position, on the other hand, appears both paradoxical and, quite literally, indefensible, so long as our operational strategy quite explicitly envisages the initiation of a nuclear exchange. The use of theater nuclear weapons within Western Europe, on any scale, will involve agonizing self-inflicted wounds for which our societies are ill-prepared; while their extension to Eastern European territory will invite retaliation against such legitimate military targets as the ports of Hamburg, Antwerp or Portsmouth for which we have made no preparations at all. The planned emplacement of nuclear weapons in Western Europe capable of matching in range, throw-weight and accuracy those which the Russians have targeted onto that area may be necessary to deter the Soviet Union from initiating such an exchange. But it will not solve the problem so long as the Russians are in a position to secure an operational victory without recourse to nuclear weapons at all. Deterrence works both ways.

VII

It cannot be denied that the strategic calculus I have outlined in the above pages has disquieting implications for the defense of the West. We appear to be depending on the technological dimension of strategy to the detriment of its operational requirements, while we ignore its societal implications altogether—something which our potential adversaries, very wisely, show no indication of doing. But the prospect of nuclear war is so appalling that we no less than our adversaries are likely, if war comes, to rely on "conventional" operational skills and the logistical capacity to support them for as long as possible, no less than we have in the past.

Hostilities in Europe would almost certainly begin with the engagement of armed forces seeking to obtain or to frustrate an operational decision. But as in the past—as in 1862, or in 1914, or in 1940–41—social factors will determine whether the outcome of these initial operations is accepted as decisive, or whether the resolution of the belligerent societies must be further tested by logistical attrition, or whether governments will feel sufficiently confident in the stability and cohesion of their own peoples, and the instability of their adversaries, to initiate a nuclear exchange. All of this gives us overwhelming reasons for praying that the great nuclear powers can continue successfully to avoid war. It gives us none for deluding ourselves as to the strategic problems such a war would present to those who would have to conduct it.

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Amos Perlmutter

A RACE AGAINST TIME: THE EGYPTIAN-ISRAELI NEGOTIATIONS OVER THE FUTURE OF PALESTINE

The peace treaty ratified by Egypt and Israel on March 29, 1979 is neither an end to a problem nor a fresh point of departure in the efforts to resolve it. Rather, it represents a stage in a protracted series of negotiations, misunderstandings, cajoleries, and tacit agreements extending back for years. All these will continue—but the situation has changed, for Egypt and Israel now have a document with which they can map out their future haggling.

The peace treaty provides an outline for the future negotiations, and a timetable for part of them. The procedures for the talks and the issues to be discussed are now both institutionalized by the treaty—but the outcome is not, nor are the specific details, which have been the most serious sources of contention between Israel and Egypt. Issues that were deliberately avoided in the peace treaty will have to be addressed during these negotiations. In spite of the many problems that still lie ahead, however, the successful achievement of this first accommodation between Egypt and Israel creates a momentum of negotiation that will be of considerable importance in the years to come.

Besides that momentum, another important influence on the talks that lie ahead is the role of the United States. Without American intervention there would be no glimmer of peace in the Middle East, and without continued American guidance and pressure there will be no hope for a satisfactory agreement on elections in the West Bank, or for any lasting peace in the region. American pressure has been crucial ever since Henry Kissinger wrung from Egypt and Israel the Sinai troop disengagement agreement of 1975. Now the United States will have a vital role to play in attempting to bring the Palestinians to the bargaining table and in defusing the threat of the Baghdad front of Arab rejectionist states.

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The schedule and elements of the negotiations are simple. No later than one month after exchanging instruments of ratification, negotiations over the autonomy plan will start. Both Israel and Egypt will set for themselves the target of one year for the completion of the negotiations, so that elections to the self-governing authority can be held as speedily as possible. The self-governing authority could be established a month after these elections, and—after a five-year transition period—full autonomy could be achieved.

The parties to the negotiations are stipulated: Egypt, Israel, the Palestinian Arabs (a vaguely defined partner that can include sympathizers of the Palestine Liberation Organization in the West Bank and Gaza), and Jordan, if it chooses to join in. The aim of the negotiations is to agree on the "modalities" for establishing the elected self-governing authority in the West Bank and Gaza that will bestow full autonomy on the populations of those areas. The power and responsibilities of the administrative council will be established. The military government of Israel will retreat in favor of the new authority, and the Israeli defense forces will withdraw to specified enclaves.

It seems likely that there will be two phases of negotiations. The first will start sometime in May–June 1979 when the treaty's instruments of ratification have been signed; it will end no more than a year later, when both Israel and Egypt sign the accords on the self-governing authority. The second phase will begin after the elections to the self-governing authority, sometime in July 1980, and end as the specified five-year interim period draws to a close.

The analysis in this paper will concentrate mainly on the dynamics of the first phase, but must of necessity consider the second as well, since no clear distinction is likely to survive in practice. Some knotty problems will inevitably be held over for solution into the later stage. At the same time, Egypt, supported by the United States, will do its utmost to link the two phases and to incorporate into the early stage what it expects to be achieved and completed in the later one. Israel will try to separate the two phases.

Before we examine the probable course of the negotiations, however, we will look at the situation in which the main actors find themselves at the start of the negotiations, as well as some of the internal pressures that will be at work. In the end, between the rival claims of Palestinians, Egyptians and Israelis, and the pressures of the rejectionist Arab states, the completion of the negotiations will take on many aspects of a race against time.

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II

One of the major lessons learned by Israel and Egypt in the course of past negotiations is that they have leverage over one another which they can use to extract concessions. In this new set of discussions, the leverage stems very largely from the phased nature of the treaty.

Though letters have been exchanged aimed at bringing about ambassadorial exchanges and diplomatic relations one month after Israel withdraws from the Sinai Peninsula, Egypt still has great scope for playing on the Israelis' desire for normalized relations. It can make use of Annex III to the treaty (which deals with economics and trade, cultural relations, freedom of movement, transportation and good-neighborly relations between Egypt and Israel), raising or lowering the benefits from each of these links as retaliation or reward for the Israeli attitude on the Palestinian questions.

In return, Israel has a lever of its own: the speed of the promised withdrawal from occupied territories and, especially, in these early stages, from Sinai.

Also in the background of these discussions will be the mutual exhaustion of the two countries: neither can tolerate the economic and psychological burdens of continuing adversity.

Egypt has become determined to escape from the major responsibility for attaining the radical pan-Arab goal of annihilating Israel and erecting a maximalist Palestinian state in its place. While the Baghdad front of Iraq, Syria, Jordan and the PLO may still be ready for war, the growing military strength of Iraq in no way compensates for the loss of Egypt's armed forces and its strategic position on Israel's southern front.

The change stems from the fact that, unlike his predecessor, Gamal Abdel Nasser, who tried—and failed—to lead the Arab world, Egyptian President Anwar el-Sadat has chosen to consider Egyptian interests first, although like Nasser he remains highly conscious of the extraordinary potential of Egypt, its political, intellectual and strategic importance at the center of the Arab world. In his speech to the Israeli Knesset in November 1977, Sadat insisted on two essential claims: that Israel must respect the territorial integrity of the Arab states, and that it must address itself to the righting of Palestinian wrongs. After 16 months of tortuous negotiations, the peace treaty still contains both of those fundamental claims, however modified the form.

Israel is still militarily, economically and diplomatically de-

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pendent on the United States. Although Israel has done much in recent years to decrease its military dependence on American supplies, other sources of dependence have not lessened. The signing of the peace treaty has in fact strengthened them, through American aid and the heavy claims that will be made on American funds and civil engineering resources in the gigantic task of relocating Israel's defense forces from the Sinai Peninsula to the Negev Desert.

The personalities of Sadat and Begin contributed incalculably to the achievement of the treaty. But even if one or the other of them should become incapacitated or should die before the Palestinian question is resolved, the work would go on, for the momentum behind the process is more historical than personal. A change in the style of leadership would make very little difference, for the path is charted ahead.

III

The negotiations, of course, will begin with each party's maximum demands, each containing a healthy measure of regard for domestic political pressure—but they will be guided by a set of minimum demands that must be satisfied before agreement can be reached. These demands center around five crucial questions which define the nature of the future autonomy of the West Bank and, to a lesser extent, of Gaza:

1. Who is to control the *population* of the regions, and how is that population to be composed?
2. Who is to own the *territory* of the West Bank and Gaza?
3. What sort of government will the new regions possess, and who will be permitted to form this *regime*?
4. Who will police the regions, and how will the *security* of Israel and Israelis be guaranteed in them?
5. How will the *boundaries* of these regions be decided, and who will negotiate on this issue?

These five issues—population, territory, regime, security and boundaries—are woven throughout the conflicting sets of Egyptian and Israeli minimum demands, and they will condition the responses of the United States, the PLO and the rest of the Arab world to whatever emerges.

The Begin plan for West Bank autonomy sets forth certain principles of Palestinian self-rule that (though disputed by Sadat at Camp David) are still Israel's iron laws for future negotiations with the Palestinian Arabs. The autonomy annex to the peace

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treaty neither confirms nor denies these principles, which are based on three linked strategic aims: the guarantee of security, the principle of settlement, and the "open bridges" concept, also now called "no boundaries."

Begin's desired arrangements for the autonomous areas are incorporated in the unpublished Ben Ellisar report of the joint committee of the directors general of the Likud government's ministers, headed by Begin's chief of staff, Eliahu Ben Ellisar. This report is already setting the tone of the Israeli conception of autonomy. The principle of the Ben Ellisar plan—about which Minister for Foreign Affairs Moshe Dayan has expressed reservations—is to establish an effective Israeli presence in the unsettled and militarily vulnerable mountain areas, as well as to preserve elements of Israeli sovereign rule in the autonomous areas. This is, in essence, a Transkei policy. Israeli settlement and military bases would encircle the most populated Arab areas, and the scheme would establish Israeli jurisdiction for Jewish settlements and for all matters affecting the Jewish populations in the autonomous self-governing areas.

The purpose of the plan is to make certain that the self-governing authority does not develop the potential moral and political clout to impose an independent Palestinian state on Israel. Further, the Jewish settlements would create new boundaries between Israel and Palestine at the end of the interim period.

So, as the negotiations continue, Israel will create political facts in the area by continuing its settlement policy despite unfavorable world publicity and American and Egyptian protests. This strategy will be partly influenced by the pressures of Israeli public opinion and a tacit rejectionist alliance in domestic Israeli politics.[1] Although Prime Minister Menachem Begin chooses to embellish his firm intention of continuing the settlement policy with the rhetoric of a religious manifest destiny to which most of his fellow citizens no longer subscribe, this should not blind us to the broad public support for the policy itself, for Begin's determination to reduce the autonomy clauses to a cipher in this way reflects, not the outdated prejudices of a zealot, but the deepest desires of the Israeli nation.

Israel's longing for peace, so marked at the time of President Sadat's visit to Jerusalem only 16 months ago, became transformed, as the endless negotiations wore on, into a longing for peace on Israel's terms. It is clear that the Israeli public deeply

[1] For a discussion of the formidable opposition which has developed, see Amos Perlmutter, "A New Rejectionism," *Foreign Policy*, Spring 1979, pp. 165–81.

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desires peace with Egypt—but it is also clear that it does not want to make the concessions necessary for the general Arab-Israeli settlement that Sadat originally hoped for, and still pretends he has achieved.

The gap between the Israeli public's attitude and the hopes of the Egyptians has been vividly illustrated by the parliamentary hostility to concessions Begin has had to face all through the negotiations—not simply from his own hard-line back-benchers, but from politicians right across the (extremely limited) Israeli political spectrum.

After the ratification of the peace treaty, for example, Dayan promised that the seat of the military government of Gaza would be moved outside the city limits, and that political prisoners from the West Bank and Gaza, presently held in administrative detention, would be freed. At the same time, the government rejected two far more significant concessions requested by the Egyptians—the legalizing of political activities in the occupied territories and the lifting of censorship, and the introduction of freedom of movement. Despite these stern refusals, and Dayan's assurances that the freeing of the prisoners would not have been promised if there had been any danger to state security, there was much opposition to these two steps from members of the majority parties.

This episode, trivial in itself, illustrates the nature of likely future Israeli concessions: the substance always refused, the appearance conceded, but only after fierce domestic political struggles. From the Israelis' point of view, if they can gather the advantages of peace with Egypt without opening up the West Bank and Gaza as bases for the PLO, they will have achieved a stunning strategic coup.

The power of domestic political criticism is never far from Begin's mind, as he continues to run a potentially explosive government coalition. Hence his decision to attempt to defuse such criticism, from outsiders as well as from coalition members, by appointing a seven-member cabinet Autonomy Committee to oversee the performance of the negotiating team (Begin, Weizman, and Dayan). Significantly, the chairman of this committee is to be Dr. Yoseph Burg, the moderate National Religious Party Minister of the Interior.

Despite these pressures, one compromise—made under heavy American pressure and a desire to enhance the progress of normalization with Egypt—can be fairly confidently predicted. This would be Israeli consent to open elections, supervised by the

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parties to the treaty or by the United Nations. The treaty does not describe the way in which the elections should be conducted, so Israel can probably treat a willingness to allow all comers to enter as a concession.

Throughout the negotiations, Israel will play upon its deep concern for security, which will be used to establish Israeli military control over the governing authority in matters of terrorism and security. This would provide powerful leverage over a weak administrative authority. To buttress these claims, Israel will point to the Camp David Agreements (Section A, West Bank and Gaza, paragraph (a)). "These new arrangements," says the accord, "should give due consideration ... to the legitimate security concerns of the parties involved." Israel will interpret "legitimate security" in ways that will give it the control over West Bank security which it seeks.

Anwar Sadat's response to Israeli negotiating tactics will be conditioned by his minimum demands, and by his genuine moral commitment to the Palestinian cause. Much has been written about how Sadat betrayed the Palestinians and agreed to a simple bilateral Israeli-Egyptian settlement to recover his lost territory. This view inaccurately treats the Palestinian pages of the peace treaty as a disingenuous device to cover Sadat's ungraceful jettisoning of his Palestinian responsibilities. But for Egypt, the self-governing authority is a true state-in-the-making. Sadat made clear at Camp David that he is committed to the principle of linking an Egyptian-Israeli peace to a satisfactory future for the Palestinians.

Sadat will thus start off in the negotiations by asking for most of the trappings of sovereignty for the new authority: elections, parties, free assembly, foreign policy, authority over land, people, and resources. The agreement that covers the interim period should take as given the emergence of an independent Arab Palestine at the end of the period.

An attempt to schematize the two main negotiating parties' minimum and maximum demands might look something like the following.

On the issue of the *population* of the regions, Israel's maximum demand is that the administrative authority should be deprived of all properties of sovereignty over the inhabitants of the area until boundaries are settled five years after the election. In principle, Israel will oppose the acceptance of a Palestinian right of return; in practice, it will accept the return of perhaps 100,000 to 150,000 Palestinians from abroad. Israel will demand a link in

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legal jurisdiction between Jewish settlements in Judea and Samaria and the Israeli state. In other words, it will insist on extraterritoriality of Jewish settlements and extraterritorial rights for Israeli citizens anywhere within the region. As a corollary, no restrictions will be accepted on the movement of Palestinians and Israelis between the self-governing authority and Israel.

Egypt's maximum demand on population is for total control of all the population, Israeli and Arab, by the new authority; as a minimum, Egypt would insist on theoretical control by the authority, but would accept a measure of practical Israeli control in the interests of security. A Palestinian right of return is a theoretical minimum for Egypt, but this demand, forced on Egypt's negotiators by the need to placate the Palestinians, is not one for which they have much enthusiasm.

On the issue of *territory*, the main bone of contention is the Israeli settlements. Israel's maximum demand is for the continued right to increase settlements, and extraterritorial rights for settlers. This will include the right of unlimited land purchase. Above all, Israel will reject the evacuation or dismantling of Jewish settlements on Arab land.

Egypt objects to Israeli settlement of the occupied or autonomous territories, but will not insist in the end, as it did over Sinai, that Israel immediately evacuate and dismantle its settlements. This, Egypt will argue, would be a matter for the self-governing authority and its successor, the future Palestinian state, to negotiate with Israel. In the meantime, there should be an immediate end to the policy of building fresh settlements. This last demand is likely to prove one of the most contentious issues in the early stages of the talks. Another minimum demand will be for existing settlements to come under Palestinian authority.

The *regime* of the new autonomous regions brings out the dispute about the statehood of the areas. Israel has no real maximum demand; its minimum demand is simply that the administrative agency should be an Arab National Committee, with no trappings of sovereignty, until borders are settled. Egypt has no fixed maximum demand in this regard either, but will try to get as many properties of sovereignty attached to the new self-governing authority as soon as possible. (It will be pressed especially hard here by Palestinian politicians keen to avoid an unworkable state.)

On the issue of *security*, one can expect a consistent Israeli attempt to separate the promised sovereignty of the new self-governing authority from the role of the security policeman in its own territory. More specifically, the area governed by the Pales-

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tinian self-governing authority and by its unknown successor would be demilitarized. No Arab or foreign troops could be deployed west of the river Jordan. Any such development would mean the end of Israel's tolerance of the regime's autonomy. After withdrawal, the Israeli Defense Forces (IDF) would be deployed in assigned, guaranteed enclaves—probably in the strategic mountains facing the Jordan on the east and the Mediterranean in the west. This would have the additional advantage of providing Israel with a "mark of sovereignty," which the government is determined to retain on the West Bank, in however vestigial a form.

At the same time, the IDF would (both independently and in collaboration with the new Palestinian police force) secure the area from terrorism and guerrilla activity sponsored by Palestinian and Arab rejectionists. Israel will demand the right to deal with this violence, for its ultimate target would be the state of Israel itself. To achieve this, IDF and Palestinian police would be controlled by the Israelis; and in the case of Gaza, by joint Israeli-Egyptian control. Minimum demands would probably involve some complex policing arrangement on the West Bank, possibly involving the United Nations, which would blur the fact of practical Israeli control.

Egypt's maximum demand is for the total withdrawal of Israeli forces everywhere during the second phase, and, in phase one, the overall control by the United Nations on the West Bank. It will insist that no foreign troops be permanently stationed in the area; this will include Israelis, Arab rejectionists, Soviet troops, or Cubans. In Gaza, Egypt wants to control a joint Egyptian-Israeli-United Nations-Palestinian police force from the beginning of the first stage. As its minimum demand, Egypt will continue to insist on Israeli withdrawal by the end of the second phase, but will probably, like Israel, be willing to blur the issue of police control on the West Bank by setting up an ambiguously worded joint policing operation.

On the issue of how the *boundaries* of the new regions will be defined, Israel will help ensure that the potential for true sovereignty will not emerge in the West Bank and Gaza through its basic demand that it will only negotiate with an established Arab state five years after the elections. The West Bank talks would therefore take place with Jordan; the Gaza talks with Egypt. This was stated unequivocally by Dayan on April 18, 1979, when he said, "Autonomy is not a state. If the administrative authority declares itself a state, the autonomy becomes null and void. . . .

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We negotiate only with sovereign states. The autonomy is only an Arab Palestinian national committee."[2]

Egypt sees little room for negotiation on this issue—its basic demand is that the self-governing authority should negotiate its own boundaries with Israel. This blank disagreement will probably be resolved—as it was in the peace treaty—by leaving the issue open, at least until it is clear whether or not the new authorities will be ones with whom Israel can practically negotiate.

On the five central issues listed above, the United States will largely follow Egyptian demands. It expects total Israeli withdrawal from the territory after the elections in 1980 with the exception of IDF enclaves, and will recommend joint Arab-Israeli-Palestinian security arrangements. The United States will not accept Israeli demands for extraterritoriality, and it will try to get Israel to call a moratorium on settlements. It will, however, go some way toward meeting Israel's demands by agreeing to those Israeli claims that relate strictly to the need to control threats from terrorists and guerrillas. The United States will not press, in this first phase of talks, for the establishment of an independent Palestinian state, but it will insist that the new authority possess some elements of sovereignty from the start, and will press for a special status for Jerusalem.

Sadat will have considerable problems, as the above analysis shows, in attaining even his minimum position in the face of Israeli intransigence. The maximum aim, therefore, is even less likely to emerge. But the major obstacle to Egypt's goal may prove to be the Palestinians themselves.

Although the Palestinian Arabs of the West Bank and Gaza could be represented as a party, and the Egyptian and Jordanian delegations (should the latter materialize) could include Palestinians, the major representative of the Arab Palestinian people, the Palestine Liberation Organization, has not been invited, and is categorically excluded by the Israelis. PLO sympathizers may be overlooked, as Begin and Dayan have indicated, but an official PLO presence is unacceptable to Israel.

Those Palestinian Arabs willing to take part in the negotiations will emphasize the importance of a guarantee of total Israeli military withdrawal, a moratorium on Israeli settlements, full sovereign rights for the new authority, a legislative assembly, an executive power, a minimal military-police force to be used mainly against terrorism, an independent foreign policy, and diplomatic

[2] *Ma'ariv* (Tel Aviv), April 19, 1979.

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relations with all Arab states, including the Baghdad bloc. Above all, they will demand an unrestricted right of Palestinian return to the homeland.

Sadat and the United States can only implore the Palestinians, the PLO, the Baghdad states, and the moderate Arabs to facilitate the process of self-government. But if the PLO and its rejectionist allies remain adamantly opposed to negotiating by proxy, as seems likely, then the best chance for any Palestinians who wish to join in the talks would be to appear as members of the Egyptian delegation, where they would have the support of the United States and would avoid infringing on the Rabat Arab summit declaration which named the PLO as the sole representative of the Palestinian people.

Since the Gaza Palestinians are more independently minded than the Palestinians on the West Bank, and Gaza poses less of a strategic, historical and religious problem for Israel, the first stage in the talks will probably be between Egypt, Israel and Gaza Palestinians, supported by the United States. These talks will aim at producing a self-governing authority in Gaza that would serve as a model for an eventual West Bank authority which would challenge the PLO's stranglehold as Palestinian representative.

This may be precisely what Egypt and Israel have in mind. Because this could be a likely outcome, Begin and Dayan accepted Egypt's "special relationship" with Gaza, though they successfully opposed an Egyptian military-administrative presence there. The strategy could mark a crucial turning point for the PLO, to whose dilemma we now turn.

IV

The PLO has undergone considerable change since its inception in 1956 as a miniscule group of Gaza terrorists. It is now a well-established political structure, legitimized in 1974 by the Arab states in Rabat, and recognized by over a hundred U.N. members. It represents the legitimate demands of the Palestinian people, and has become the essence of pan-Arabism—the Arab holy cause.

The Camp David accords and the Egyptian-Israeli peace treaty conspicuously ignored the PLO. For its part, the PLO vehemently opposed the process that culminated in these agreements, refusing to join in Sadat's Cairo conference in November–December 1977.

Although officially committed to the total liberation of Palestine (first, the West Bank and Gaza; next, Israel proper; finally,

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probably Jordan and parts of Lebanon), the political realism of PLO Chairman Yassir Arafat and a group of moderates that surround him has considerably modified the PLO's maximalist claim for the establishment of a democratic Jewish-Christian-Muslim state.

The PLO leadership now seems ready, I believe, to accept half a loaf: an independent PLO state in the West Bank and Gaza plus the Hamma region in northeast Israel, the crossroads between Syria, Jordan and Israel. While adhering to maximalist ideological aspirations, the PLO is ready to turn to a "phased strategy," that is, it would consent to the establishment of a Palestinian state in the West Bank and Gaza, not in exchange for recognition or for ending the war with Israel, but as a first step in the eventual realization of the ultimate goal of the liberation of all Palestine.

The "phased strategy," however, means compressing Israel's size to the 1947 boundaries. This is a practical PLO demand, as was the demand to participate in the Geneva Conference, but not on the basis of U.N. Resolution 242, which recognizes the Palestinians only as "refugees."

Whatever the potentially pragmatic policies of the PLO's best-known leaders, the organization may well find itself unable to act with sufficient pragmatism. The PLO's very structure works against flexibility.

An executive committee composed of 12 to 14 federated fedayeen groups, the PLO has no real executive and political authority, for true power still resides within each fedayeen group. The 260 delegates of the only representative body, the Palestine National Council (PNC), are not chosen by the PLO or the membership but by the fedayeen groups, making it an ad hoc parliament of federated but autonomous groups.

The Palestine National Council is neither a legislative body nor an executive, but a sort of constituent assembly that meets infrequently; resolutions agreed upon by the PNC cannot be revoked, amended or changed until the next PNC conference. The absence of a mechanism to modify resolutions more expeditiously tends to further rigidify the PLO, weaken its moderate factions, and strengthen the smaller and more rejectionist groups. Although the majority of the fedayeen groups take a fairly moderate position, the extremists dominate because of their sizable influence in the PLO's military and guerrilla organization. Experience has shown the PLO that if they don't all hang together (as was the case before 1968), they will all be hanged separately. Disparate groups have thus been bound together, but only at the cost of becoming

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identified with a radical, extremist rigidity.

In order for the PLO to participate in the negotiations—actively, if not openly—it must recognize Israel, or at least U.N. Resolution 242. This would mean convening a special PNC conference. A similar, but abortive attempt was made in the Cairo PNC conference in March 1977, when the United States unsuccessfully urged the PLO to modify its position, or at least to recognize Resolution 242. By the time Sadat went to Jerusalem, in November of that year, PLO-U.S. relations were deadlocked. After the peace treaty and the Baghdad resolutions of March 1979 condemning the treaty, it seems improbable that the PLO, or its allies Syria and Iraq, will be receptive to the same American overtures that came to naught in 1977.

The PLO will certainly not change its stance, at least not until the elections to the self-governing authority have been held, which cannot happen before the latter part of 1980. In the meantime, the PLO will almost certainly settle for attempts to sabotage the negotiations by the use of terror in Israel and Egypt, and will try to restrain the West Bank Palestinians by intimidation from joining the Arab delegations to the negotiations over autonomy. The PLO will also try to mobilize Arab radical nations and oil states (e.g., Kuwait and possibly Saudi Arabia) against autonomy.

However, the PLO may recommend that its sympathizers vote in the elections. A similar strategy was followed in the West Bank elections in 1976, and with considerable success. This time the PLO would again be hoping for an overwhelming electoral victory among West Bank Palestinians. But once its sympathizers dominate the autonomous administration, especially if Egypt and the United States secure elements of real sovereignty for the new authority, the PLO will find its former front-men much more difficult to handle. Serious political struggles between the PLO and its sympathizers, possibly even spilling over into violence, can be expected, once the latter achieve autonomy.

The chances are that U.S. efforts to persuade the PLO to modify its charter and its course, at least during the first phase of negotiations, are bound to founder. Nonetheless, the United States will be hoping that, by acting on behalf of either the West Bank Palestinians or the PLO in the negotiations, it will be able to swing the balance within the PLO toward the moderates. The United States will undoubtedly intensify its contacts with the PLO and the West Bank Palestinians to persuade them to grant the United States or another American-sponsored combination (with Egypt or the United Nations) enough authority to wage a

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diplomatic battle on behalf of the Palestinian cause.

American strategists will emphasize the events of 1976, when the PLO appeared ready to modify maximalist positions. In November of that year, Faruq al-Qaddumi, the head of the PLO's political department (or "foreign minister"), hinted that the PLO might give some kind of recognition to Israel, and Yassir Arafat said that a unified Palestine "is my dream," but " we are prepared to establish an independent regime in any territory that we liberate or from which Israel withdraws." President Carter's positive response, calling for the resumption of the Geneva Conference and for a "Palestinian homeland," eased negotiations with the PLO. Both Carter and President Assad of Syria were convinced that they were close to persuading the PLO to go to Geneva and accept Resolution 242. But the arrival of the Begin government, the collapse of Geneva, and the chorus of Arab outrage (led by the PLO) when Sadat went to Jerusalem—all helped to harden the PLO moderates against their earlier shift toward pragmatism.

Despite gloomy prospects for success, American policymakers are convinced that an effort to get the PLO to accept the United States as its representative is worth attempting. A first step would be for the United States to disentangle itself from former Secretary of State Kissinger's written commitment made to Prime Minister Rabin's government during the Sinai II disengagement agreement that the United States would never negotiate with the PLO until the latter recognized Israel and its 1967 borders. Once the United States dissolves this agreement, the road will open to closer and more trustworthy U.S.-PLO relations. But whether this would be enough to get the tacit support of the PLO for the negotiations over autonomy remains to be seen—and the outlook is not favorable.

V

Moderate PLO leaders would, in any case, be trapped by their allies, the Iraqi and Syrian rulers, whose main objectives are to halt the peace process, isolate and weaken Egypt, and keep Jordan firmly in their own camp. Iraq and Syria need each other, despite the historical enmity between the two ruling Baath parties, because they are both worried about the ramifications of the Iranian revolution, and because they need to fill the Egyptian military vacuum. The Iraqis in particular are keen to threaten by political or even military means the peace process so advantageous to their implacable foes, Israel and Egypt. Yet if the Baghdad bloc

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fails to demonstrate its political strength now, it may lose leverage over Arab politicians in years to come.

Nevertheless, the arguments are not all on one side. Terrorism may be all very well as an expedient for an extremist group like the PLO, but established states like Iraq, Syria or Jordan have their own national interests which may not be equally affected by the Egyptian-Israeli rapprochement. The only truly unregenerate rejectionists are Libya and possibly Iraq. Syria and Jordan form a more moderate group, while Saudi Arabia and the Gulf states are hardly members of either of the fronts.

Egypt, Israel and the United States should treat each state according to the practical limits on its goals. Syria, for example, might well make practical gains by separating itself from the Baghdad front and beginning its own peace negotiations with Israel on the Egyptian model. The rewards would be an almost total Israeli withdrawal from the Golan Heights, stabilization of Syria's dangerously exposed position in Lebanon through a tacit Israeli-Syrian arrangement, and possibly even the Syrian patronage over the West Bank Palestinians that Assad asked from Carter at their April 1977 meeting in Geneva. By contrast, if Syria stays with the rejectionist front, it runs the risk of being trapped by PLO and Iraqi ambitions.

Iraq hopes to lead a polarized rejectionist Arab world that would be reluctantly reoriented toward its leadership. But if Israel fulfills its pledges under the Egyptian peace treaty, then Iraq may suffer a political setback, and perhaps a military defeat into the bargain. A successful conclusion to the first phase of negotiations would leave Iraq without real influence on the development of the second stage. Both Syria and Iraq (and along with them a reluctant Jordan) appear to be gambling on becoming once more the radical Arab Fertile Crescent that they tried to become in the 1960s. If the elections take place, and phase two of the negotiations gets properly underway, the gamble may prove to be an unhappy one.

For Jordan, the options are limited. Since the Rabat conference in 1974, it no longer represents the Palestinians. The 1976 West Bank elections, in which PLO sympathizers won the mayoralty elections, ended any chance for a return of the area to Hashemite rule. Now Israel's Labor Party is in the opposition and its Jordanian-Palestinian solution has been replaced by Begin's autonomy plan. Jordan thus stands to lose an element of sovereignty over the West Bank to the new self-governing authority.

It has little to gain from the peace treaty and nothing to gain

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from the autonomy scheme. Yet Jordan could be squeezed between Syria and Iraq on the one hand, and Israel on the other. It might still have a chance at an independent role by acting as another party to the negotiations. But the Jordanian decision to oppose the treaty seems likely to cost the Hashemites some of their political independence. Dependent on Syria, on Iraq or on both, squeezed once more between the PLO and Israel, Jordan could once more become a target of Israeli retaliation against the PLO, as has Lebanon. Jordan's foreign policy must always be that of a weak state seeking allies and patrons. This time the Jordanians hope they have joined the winners in the Arab world. But their powerful new allies, Syria and Iraq, will be hard to escape, for they will certainly exact retribution if Jordan chooses to return to the moderate Arab fold.

The pressures within the rejectionist front seem likely to produce, at the very least, fresh military tensions along Israel's northern borders. If Syria and Jordan choose to ignore the appeal to their underlying interests presented by a role in the negotiations, they will have to join Iraq in hoping for a rapid collapse of the peace process. All the usual signs of heightened military activity are likely to follow—border skirmishes, cross-border raids by the PLO, stray aircraft shot down, and so on.

Ironically, one of the most likely triggers for such military tension would be a successful American diplomatic effort to bring moderate Palestinians into the self-governing agreement, and to modify Israel's maximalist ambitions. In such circumstances, with the hope of a collapse of the peace process fading, Syria and Iraq might feel pushed into trying to destroy the negotiations by limited military means.

One possible counterforce should not be overlooked: the role of American aid. The billions of dollars in American military and economic assistance, and the American promise to serve as guardian of the peace in a region destabilized by the events in Iran and Afghanistan, could provide temptations even for the rejectionists. A "Marshall Plan" for the Middle East would be a big carrot, but American offers of aid would certainly be greeted with skepticism until congressional approval was assured.

VI

The outcome of the initial phase of negotiations is, needless to say, difficult to forecast. Past successes and the presence of the United States as a partner nonetheless give cause for optimism.

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The minimum positions of Egypt and Israel, while in conflict, allow scope for a compromise solution to emerge, based in part on the mutually beneficial vagueness which allows both sides to claim victory, and which played an important role in the achievement of the Camp David accords and the peace treaty.

That compromise would emerge in the first quarter of 1980. It would involve wide autonomy for the Palestinians under two simultaneously erected authorities: one agreed to essentially by the Egyptians and Israelis, on their own, in Gaza; a second, far more difficult to agree upon, involving not only these two negotiating partners but the United States and the Palestinian Arabs on the West Bank. This solution will curtail and heavily restrict (but not dismantle) Jewish settlements, leave borders open, and produce joint Egyptian-Israeli security control in Gaza and Israeli maintenance of West Bank security, perhaps with the aid of an interim U.N. force until Jordan chooses to join in or until West Bank Palestinians achieve autonomy five years after the elections.

Such a compromise would avoid defining the type of regime that would emerge in five years' time. Boundaries and sovereign rights of the self-governing authority are not expected to be drawn till 1985. The development of the self-governing authority would not be laid down in advance by the negotiators, but would rather evolve after the elections, and will be heavily influenced by the fact that the PLO may decide, as in 1976, to enter the elections with a slate of sympathizers.

A victory by those sympathizers would pose dilemmas both for Israel and for the PLO. Opposition forces in Israel will see a victory by PLO sympathizers as a reason for abrogating the rights granted to the West Bank, while the PLO will face the reluctance of its sympathizers to use their posts simply as a platform for maximalist PLO propaganda.

The ultimate shape taken by Palestinian self-determination and the extent to which it acquires, in the face of Israeli hostility, the elements of statehood, will depend on the political and diplomatic skills of those Palestinians living in the occupied territories who decide that half a loaf is a realistic goal. Israel, as a neighbor and an intimately involved partner, will still dominate Arab Palestine, and the key to the formation of an independent Palestine will lie with the Israelis. Nothing can replace the Palestinians' ability to assure Israel of future good-neighborliness. Israel will be counting on the latent hostility between the West Bank Palestinians and the PLO to contain the PLO's "phased strategy" leading to a

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complete territorial takeover of the whole of Palestine.

An early and relatively painless agreement would set an important precedent for the West Bank. Egypt and Israel both agree that there must be an end to Palestinian terrorism, and that without security for Israel there is no security for Egypt. These principles can be realized in Gaza with relative ease, not least because of the simple reason that the area is sandwiched between Egypt and Israel. The West Bank, by contrast, is not physically attached to Egypt, has no historical links with it, and borders on Jordan.

Egypt has historically controlled Gaza, and the pro-Egyptian faction among the Gaza Palestinians is dominant. From Israel's point of view, Gaza is not part of Eretz Israel, that is, the nation of Israel. There are also fewer settlements there than on the West Bank, and no problem of the complexity of what to do with Jerusalem. Finally, for both sides, the area is an extension of the Sinai, from which both can invade the other. Hence the demilitarization of an autonomous Gaza is important—and once a credible compromise is achieved for the area, the chances of reaching an analogous arrangement for the West Bank will rise.

Gaza is important for the United States, too. A temporary separation of Gaza from the West Bank would alienate the PLO, but realism may dictate that such a solution be accepted for phase one of the process. The United States will insist thereafter on incorporating properties of sovereignty in both Gaza and the West Bank, thereby keeping the integrity of the Palestinian mini-state as intact as possible. The United States will also work to ensure, during the first phase of the negotiations—and certainly during the second—that Jordan enters the peacemaking process. Moreover, the Baghdad challenge will continue to grow in 1980, and the United States will have to play an important role in reducing such a threat.

VII

The United States must not follow an unworkable policy of trying to achieve grand multilateral and overall solutions. U.S. diplomacy should be persistent, clearly backed by the exercise of presidential authority, and most important, directed toward bilateral solutions. Dogged presidential determination, and above all a bilateral phase-by-phase approach leading to the construction of a set of negotiating procedures and assumptions, will still prove to be the most satisfactory American negotiating strategy.

The stakes are high and the risks are evident. But the success of the process so far, and the creation of that momentum of negotiation which helps to establish a presumption of success, may yet prevail.

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Ann Crittenden

ISRAEL'S ECONOMIC PLIGHT

With the signing of the Egyptian-Israeli agreement, the focus in the troubled Middle East has turned to the West Bank, and negotiation of a wider peace settlement. What is rarely discussed in the context of these critical talks is the deterioration of the Israeli economy and the increasing economic pressures on the coalition government of Prime Minister Menachem Begin. Plagued with the greatest military burden per capita of any country in the world, pushed by its Zionist mission to perpetuate an inefficient state presence in the economy, and dependent upon American assistance for its basic needs, Israel is entering into the most difficult economic phase in its history.

A brief rundown of Israel's current economic problems highlights the seriousness of the situation. Prices are rising faster than almost anywhere in the world, by almost 50 percent last year and by more this year. The balance-of-payments deficit in 1978 was $3.25 billion, equal to almost one-fourth of the country's gross national product. The government budget last year was almost as large as the national output; in the previous year it was actually bigger, meaning that in both years funds from abroad were necessary to cover the government's commitments.

Hyperinflation in particular has seriously undermined the stability of the coalition Likud government. Public opinion polls in Israel, as in the United States, suggest that the issue of inflation is of greater importance to voters than any foreign policy issue, and surveys taken this past spring indicated that if elections had been held at that time, the Center-Right coalition would have been defeated by the Labor Party opposition for purely domestic policy reasons.

Moreover, the nation's economic vulnerability could place a real restraint on the freedom of action of any Israeli regime, whether of the Right or the Left. The country's growing inability to pay for its civilian as well as military imports has driven Israel further from its dream of economic self-sufficiency than at almost any time in its 30 years of existence. Assistance from the United States, now at unprecedented levels, is essential to the everyday

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operations of the economy, raising serious questions about Israel's ultimate autonomy from its American ally. As one Middle East scholar has written, the Israelis would do well to ponder the implications of the thought that in the Anglo-Saxon tradition, the power of the sword was always held in check by the power of the purse.

The Egyptian-Israeli treaty, far from easing some of these pressures, will only magnify them. Israeli economic officials do not expect the treaty to make possible any cutbacks in military spending, which eats up almost one-third of the budget and is responsible for much of the imbalance in the country's international payments. On the contrary, what these officials sometimes refer to as the "problems of peace"—primarily relocating the lines of defense from the Sinai to the Negev—will require vast new outlays and a massive new injection of American aid.

II

Far from being an inevitable part of Israeli history, this kind of dependency is of fairly recent origin. After the first three years following independence, when the state was totally absorbed in the tasks of self-defense and handling a flood of immigration, Israel entered a long boom period. Between 1952 and 1967, economic development was the watchword, and the still-current popular image of the Israeli economy—a hard-working nation of pioneers making the desert bloom—was formed.

This vision was not just a romantic stereotype, for throughout this period the country did have one of the highest growth rates in the world. Only Japan, South Korea and Taiwan have had records roughly comparable to the ten percent annual growth achieved in Israel through most of the 1950s and 1960s. And with this progress, the country was moving steadily toward economic self-sufficiency. The ratio of the trade deficit to national output was steadily declining, from 26 percent in 1952 to about 14 percent in 1966, primarily because of a very successful export performance.

All of this was accomplished with few natural resources, virtually no indigenous energy sources, and a largely unskilled labor force, and despite an economic boycott by the country's closest neighbors. A crucial factor in this growth, of course, was a steady stream of capital from abroad. In his book, *Israel, The Embattled Ally,* Harvard's Nadav Safran estimates that between 1950 and 1973 Israel received more than $18 billion, primarily from U.S. grants and loans, contributions from world Jewry, bond sales, and

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German government reparations payments to the Israeli government. This outside assistance notwithstanding, most scholars tend to agree that by the mid-1960s, Israeli exports were growing at such a rate that a moderate increase in tax rates and some restraint in public spending would have enabled the country to completely eliminate its balance-of-payments deficit by the early 1970s.

The June 1967 War shattered that possibility. Between 1966-67, the last full year of peace, and 1971-72, imports of expensive new military hardware surged and production shifted to military uses. Military expenditures as a percentage of GNP jumped from 11.7 percent in 1966 to 24.1 percent in 1972, and military imports increased from $116 million to more than $800 million.

The 1973 October War accelerated the country's growing economic plight. The conflict decimated the nation's weapons arsenal and necessitated another vast arms program which sent defense expenditures abroad soaring to more than two billion dollars in 1975. At the same time, the global inflation of 1974-75 hit Israel, which imports virtually all of its raw materials, particularly hard. As a result, balance-of-payments deficits, which had been in the manageable $500-million to $1-billion range before 1973, jumped to a $3-4 billion level in the years thereafter. These deficits were financed only with the help of American aid, which shot up dramatically as the economic squeeze on Israel tightened.

Concerned about the country's deepening dependency in the wake of the 1973 War, the Labor government tried to exert some discipline over the economy. A series of policy measures designed to curb consumption—including tax increases, cuts in subsidies, and devaluation of the Israeli pound—did slow the economy and reduce imports in 1975-76. As a result, the payments deficit declined slightly—from a peak of four billion dollars in 1975 to $3.3 billion in 1976.

But there were limits to what the coalition government, dominated by workers' parties and heavily influenced by the Histadrut, Israel's powerful trade union movement, could do. In the end, though its policies actually produced a recession, Labor failed to cut consumption significantly or to improve productivity in the swollen public sector.

When it first took office in early 1977, the Likud coalition, like the Labor government, hoped to revitalize the sluggish bureaucratic economy and to reduce Israel's appetite for American aid. But also like Labor, the Likud tried to avoid the painful remedies of slashing consumption and curbing government spending. The new government's strategy was based on a laissez-faire monetary

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program designed to stimulate exports and encourage foreign investment. The "New Economic Policy," launched in the fall of 1977, liberalized the country's financial sector. The Israeli pound was allowed to find its own level in the foreign exchange markets, cumbersome currency controls were eliminated, export subsidies slashed, and many of the subsidies on basic commodities reduced. It was anticipated that the reforms would attract foreign investment and encourage the flow of capital back into the country, would force Israeli industry into a more competitive position by removing its shield of protection, and would stimulate the sale of Israeli goods abroad, as they became cheaper through the devaluation of the pound. The government estimated that, if all went well, by 1984 Israel would no longer need the roughly one billion dollars a year in economic aid that it had been receiving from the United States since 1975.

The policy was successful as far as it went. Exports last year did jump by 25 percent, and industrial exports were up at an even faster rate. The increase was not without its controversial perspective, however, for much of the surge represented stepped-up arms shipments. Last year these totaled $500 million, or roughly 20 percent of Israel's industrial exports, and Defense Minister Ezer Weizman has said that sales will rise to $600 million this year. Many of these goods are shipped to countries like Chile, Nicaragua, and South Africa, which have a hard time filling their orders elsewhere.

The Begin government's monetary policies have also encouraged foreign investment, which increased by more than 50 percent last year, to $165 million. (This was still below the level reached in 1973, before the October War frightened foreigners and slowed the inflow of investment capital to a trickle.)

Nevertheless, the Likud's policies have clearly failed in a larger sense, primarily because the government neglected to accompany its free market monetary policies with a tight fiscal policy reducing government spending, which is widely viewed as the primary source of inflation. As Meir Merhav, the economic columnist for the English-language *Jerusalem Post*, has written, the government instead pursued policies "designed to placate every vested interest and every departmental whim of every ministry." The result, he concluded, in a reference to the conservative American economist whose ideas had inspired the monetary reforms, was a policy of "Milton, without the Friedman."

Virtually as soon as he took office, Mr. Begin informed Finance Minister Simha Ehrlich that neither defense-related expenditures

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nor welfare and social services, which together account for well over half of the budget, could be touched. Since other fixed expenditures, such as debt repayment, eat up most of the rest of the budget, that left economic officials with virtually no opportunity to exercise restraint.

III

Not surprisingly, within two years after the Begin regime had taken office, public expenditures had increased, the number of public employees had grown, and wages had risen faster than productivity or inflation. (Productivity is lower than in the United States or Western Europe, primarily because almost half of the labor force is in inefficient state enterprises and in the services sector. Only some 25 percent of workers are in industry.) The recession induced by the Labor government had given way to a resurgence of economic growth, which, in turn, sucked in more imports, pushing the balance-of-payments deficit up again from $2.6 billion in 1977 to $3.25 billion in 1978.

The central bank, forced to print money to finance the growing budget deficit, fueled the money supply by 39 percent in 1977 and 45 percent in 1978. Partly as a result, domestic prices have soared. The extreme inflation now gripping Israel has stifled investment in productive activities, diverted funds into speculation (particularly in real estate), and widened the gap between property holders and the poor.

In 1979 the government has taken some steps to cool the economy, notably by allowing food and fuel prices to rise close to market levels. As a result, the budget introduced in March of this year has been held in real terms to the same level as last year. In addition, Finance Minister Ehrlich in May proposed a plan to cut the budget in all government ministries, to impose a freeze on government hiring, and to curtail subsidized credits to industry and agriculture. If the plan is not implemented, he warned, the country could be suffering triple digit inflation by the end of 1979.

But the Likud government has still been unable to alter a wage system that has raised workers' incomes faster than the rate of inflation. After discounting for price increases, the average wage still went up by one percent in 1976, ten percent in 1977, and two percent last year. In addition to wage indexation, a host of other ways to hedge inflation are available, including government bonds pegged to the consumer price index and yielding an additional three percent, and housing loans at fixed interest rates. The result of these devices, as Arnon Gafney, Governor of the Bank of Israel,

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explained in mid-1978, is that "nobody suffers much from inflation, so it is hard for us to argue the need for restraint."

What does suffer is investment in the future. Capital investment has declined in recent years, and the "buy now, pay later" psychology so familiar in the United States is even more common in Israel. Remarkably, real consumption per capita has increased by an average of 1.7 percent a year since 1973, despite the staggering increase in the military burden and the sluggish growth rates before 1978. When asked what impact Israel's recent economic problems have had on the public, businessmen invariably reply that the man on the street has never had it so good. This is possible only because of American assistance, which now supplies Israel's butter as well as its guns. Speaking bluntly, a leading Israeli banker, Ephraim Rainer, told a reporter in early 1979 that "the public here doesn't pay the price of inflation. The United States and the Jewish people around the world do that."

IV

To a degree, the government's miscalculations can be traced to the economic inexperience of the Likud coalition. Finance Minister Ehrlich is a politician whose previous economic experience consisted of managing a small optical company. As for the Prime Minister, in the words of a high economic official, "Mr. Begin knows less about economics than the man on the street," and what he does know, it is said, ranks well below politics in his priorities.

But no amount of economic sophistication can conjure away two fundamental constants that have been part of Israeli history since the beginning, and that lie at the root of her current predicament. These are the ever-present threat of war and the military burden it implies, and Israel's Zionist mission, which requires the existence of a vast social welfare state to cushion the adjustment of immigrants to their new land. In order to serve both Zionism and national security, the Israeli government since 1948 has been involved in the economy to a degree unmatched in any other non-communist country.

The state operates such sectors as the railroads and the telecommunications industries; it manages huge public works projects in irrigation, afforestation and community construction; and it owns more than 50 percent of nearly 200 public corporations producing hundreds of products. In all, such state activities account for about one-fourth of the nation's GNP. In addition, the private sector of

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the economy is tightly bound by a web of government regulations, controls, and subsidies.

Many of these constraints have been dictated by the requirement that Israel, as the Zionist homeland, must offer all those who choose to settle there not only work but a minimum standard of living as well. The state, as a matter of basic social policy, has to maintain close to full employment and one of the most generous welfare programs in the world. The Likud, whose Zionist commitment is even stronger than its faith in free enterprise, has been unwilling to cut back on this vast public administration and its cornucopia of social services.

Maintaining full employment in practice can frequently mean subsidizing unprofitable enterprises. An example of the kind of difficult decisions facing the current leadership was provided last year when the government was called upon to assist a textile company in order to prevent the closing of an unprofitable factory in the town of Beit She'an. The plant was the largest employer in a community settled by numbers of new immigrants and exposed to frequent terrorist attacks. In the end the government felt that it had to give greater priority to the health of such a town than to rationalizing the economy. The sum of many such decisions over the years explains much of Israel's economic dilemma.

Israel's security also plays a part in the failure of the government to make the hard choices necessary if the economy is to be made more productive. According to Israeli officials, a country which faces the possibility of war every day cannot risk undertaking any economic policies that might weaken the cohesiveness of the society. Finance Minister Ehrlich is very explicit on this point. "We have a unique social structure," he said in an interview last fall. "We live under intense psychological tension. It means our ability to trim social services and employment is very limited."

Constant war encourages the Israeli government to cushion its citizens against sacrifices, which takes its own economic toll in return. The country allocates more of its resources to the military—almost 30 percent of its total output—than any other nation in the world. (Most industrialized countries spend four to eight percent of their GNP on defense; the United States, with six percent, falls in the middle of that range.) In the last 12 years, defense outlays have increased annually by more than 20 percent. By 1978 the military budget came to about $1,000 per capita, compared to an average of about $100 per capita in the Arab states of Egypt, Jordan and Syria.

The military consumes 15 percent of industrial output, and 20

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percent of the labor force, and demands that every man from the ages of 22 to 55 put in one month of reserve duty a year, with a loss of output and productivity that is impossible to measure. The country spent $1.85 billion abroad for defense last year, more than half of it in the United States. Domestic expenditures on defense, largely wages and procurement, have increased by 38 percent in real terms since 1972.

As long as the nation remains in this state of siege, it seems unlikely that any Israeli government, of the Right or the Left, will alter the current economic policies significantly. As indicated, these are based on avoiding drastic cuts in either consumption or military spending, and keeping the external deficit as low as possible by stimulating earnings from abroad. Nevertheless, several recent developments on the international scene appear to make this strategy far more risky than it has been in the past.

The current magnitude of the payments deficits—civilian as well as military—makes it doubtful whether enough resources can be generated through exports or investments to make a major dent in the gap. As long as the country is still at war, and subject to continuing terrorist attacks, foreign investment is unlikely to increase much beyond its present modest levels. Finally, a policy resting heavily on exports becomes more and more problematic as the international environment moves increasingly toward protectionism and trading blocs. The Iranian market, which used to absorb some $200 million in Israeli exports, is now closed. And the entry of Greece, Spain and Portugal into the European Economic Community by the early 1980s could threaten Israel's all-important sales to that market, for many of Israel's products, such as citrus fruit, are directly competitive with those from southern Europe.

V

It has been calculated that in the first 19 years of Israel's existence, official American assistance amounted to nearly $1.5 billion. Even then the level represented the highest rate of assistance, on a per capita basis, that the United States had ever provided to any nation. From an annual level of less than $100 million between 1948 and 1962, grants and loans from the United States leaped to around $500 million a year after the 1967 War. Following the even worse crisis of 1973-74, American assistance jumped again—to more than $2.5 billion in economic and military support in 1974. Under the Sinai II agreement, negotiated in 1975 by Secretary of State Henry Kissinger, the United States commit-

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ted itself to continuing aid levels of about two billion dollars a year. In the five years since the 1973 War, the United States has transferred more than ten billion dollars in official assistance to the Jewish state, more than half of it in outright grants. By 1978, fully one-fourth of American economic assistance was going to Israel.

For their part, the confrontation states of Egypt, Syria and Jordan have received since 1973 about half of the sum sent to Israel. As a memorandum circulated within the State Department last summer pointed out, the Middle East was receiving annual assistance per capita comparable to the Marshall Plan even before the Egyptian-Israeli treaty was signed.

Now, in the wake of the treaty, the annual economic and military assistance package to Israel is a record $2.8 billion. The total consists of a regular aid program of one billion dollars in military sales credits, one-half of which are forgiven, and $785 million in economic assistance. (This aid, two-thirds grants and the rest in concessional loans, is in the form of a cash transfer.) In addition, Israel will receive three billion dollars over three years as part of the $4.8 billion peace package. Most of this total will be spent on imports from the United States.

In addition to official aid, Israel also receives vast amounts of private money from the world Jewish community. Since the beginning of the Israeli bond drives in 1951, almost $4.3 billion has been raised around the world, including $370 million during 1978. A total of two billion dollars in Israeli bonds are held by American financial institutions and individuals, making them one of the three most widely distributed securities in the United States. Each year the bonds provide more than one-third of the Israeli development budget, representing capital investment in the economy from industrial, agricultural and energy projects to investment in communications and transportation.

In all, private contributions from the United States, including bond sales and giving through the United Jewish Appeal and other fund-raising organizations, are estimated at almost $600 million a year. With official assistance, that works out to more than $1,000 a year per person in Israel, an impressive sum in a country with a per capita income of about $2,100.

This flow of funds is deepening Israel's growing reliance upon the United States at a time when the American electorate is becoming increasingly disenchanted with foreign aid. Coincidentally, American policymakers are equally disenchanted with many of the political positions taken by the Likud coalition government.

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The implications, as some Israeli officials privately admit, are potentially severe limitations on the country's freedom of political maneuver.

Moreover, the American credits will add to Israel's growing national debt, which, at $12.5 billion is already the biggest per capita in the world. The military sales credits extended to Israel this year will probably carry interest rates of between nine and ten percent a year, and therefore will only increase the nation's burden of debt service. This year, some two billion dollars will have to be set aside by the Finance Ministry just to pay interest on the debt.

The peace agreement will worsen Israel's economic plight in other ways as well. The redeployment of the defense line is expected to aggravate inflation, particularly in housing, as equipment and manpower in the construction industry are shifted to the Negev. The treaty will also mean the loss of the offshore Alma oil field in the Gulf of Suez. Opened up by the Israelis in 1977, the field is now producing more than 30,000 barrels of oil per day, or some 20 percent of the nation's oil needs. Israel failed to gain a formal U.S. commitment in the treaty that oil from the Sinai and the offshore fields would be made available to it, although Egyptian President Anwar Sadat did pledge that Egypt would sell Sinai oil to Israel after the evacuation of the fields.

In addition to the loss of fuel from the Sinai, Israel has been deprived of its access to Iranian oil, which, before the fall of the Shah, was supplying more than half of Israel's needs. Although the Israeli Energy Ministry has found some new sources of supply, particularly in Mexico, the loss of two important fuel sources close to home could well throw the country into even greater dependence upon the United States. For, as part of the peace agreement, the United States has extended to 15 years a pledge made in 1975 to meet Israel's oil requirements for up to five years if it is unable to buy from its normal suppliers.

A fascinating insight into how galling—and worrisome—this reliance is to Israeli leaders was provided during a trip to the United States last March by Prime Minister Begin. In a speech in New York before the Israeli-U.S. Business Council, he said that Israel would do whatever it could to avoid bringing the U.S. guarantee on oil supplies into operation. "You already have a problem of energy," he explained. "Some airlines have cut their flights. Perhaps in the future you will be asked to do a terrible thing. Instead of driving your cars at the speed of 70 miles, to do so at 50 miles. . . . And who knows? Perhaps you wouldn't be able

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every Sunday of the summer to use a racing boat. These are very difficult decisions to make in this country or to be carried out. And in such a situation, if somebody would come up and say, 'We have such difficulties and we have to give oil to the Israelis,' I don't know what would happen to public opinion and the relations between America and Israel."

It is far from clear whether Israel can count on an indefinite continuation of American support at current levels. Public opinion polls taken in the wake of the Middle East treaty indicate widespread opposition to the economic aid accompanying the agreement. One survey, conducted by the New York Times-CBS polling group, even showed a majority opposed to selling oil to Israel if Jerusalem cannot buy it elsewhere.

VI

What alternatives are available to deal with these seemingly intractable problems? The most frequently discussed option focuses on cutting, not the military budget, but spending on social services and on inefficient enterprises, whether publicly or privately owned. The Bank of Israel's Arnon Gafney has fought for years for a reduction of consumption and public sector expenditures, arguing that careful pruning and a reallocation of resources toward the more productive export sector would reduce the civilian payments deficit to levels that could be covered by private capital flows by the mid-1980s. (It is assumed that the military-related payments deficit will continue and will have to be met by continuing military assistance.) This choice would not eliminate Israel's dependency upon others, but would at least keep it within manageable limits.

Moreover, the traditional Zionist argument against tough economic measures may have been vitiated by the fact that the tensions of war and inflation have already weakened Israel's appeal to Jewish immigrants. More than half of the Jews coming out of the Soviet Union wind up in the United States rather than Israel. Of the roughly 40 percent that do go to the Middle East, many are elderly people seeking a place of retirement. According to the Israeli government, more than 400,000 Israelis are now living in the United States and Canada, including 200,000 in New York alone. One can assume that many of those people may choose to remain.

Just as the fall-off in immigration weakens the case against belt-tightening in Israel, the current rate of inflation gives those urging cutbacks a powerful boost. The blistering pace of price increases

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could provoke the government into taking drastic deflationary measures and provide the nation's leadership with an opportunity to rally public support around its belated efforts to deflate the economy. Such an appeal may not bring the emigrants home, and might even encourage others to leave, but it could also spark a revival of the country's old pioneering spirit. The subterranean fear and resentment of dependence upon the United States could even be used to advantage in such a call for austerity.

In the end, however, it may well be that the only lasting solution to Israel's economic dilemma, and its only hope of becoming a substantially self-sustaining state, lies in an overall peace settlement. Only a generalized peace could permit the gradual reduction of defense spending. And it is possible that only a normalization of political relations could provide the necessary psychological framework for the difficult task of restructuring the economy. Yet this proposition—that the key to Israel's economic survival lies in a more aggressive pursuit of peace—is almost never heard in Israel. The reason, of course, is that no one wants to be accused of putting a price tag on the nation's security, even if that price is already too high.

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John K. Cooley

IRAN, THE PALESTINIANS, AND THE GULF

In February 1979, Palestine Liberation Organization chairman Yassir Arafat, arch-foe of the Israeli rulers, was welcomed to Tehran by the Iranian revolutionaries as the first foreign "head of state" to visit them. The historical irony was manifest: Arafat was treated as a hero in the same land that had supplied much of Israel's oil; the country where Israelis had participated in training the SAVAK, the Shah's secret police; and where both Israeli and Iranian pilots had trained on U.S.-supplied Phantom F-4 fighter-bombers. Arafat announced that the Ayatollah Khomeini has assured him that Iran's revolution would be incomplete until the Palestinians won theirs. Within weeks, the PLO had installed a mission in the former Israeli embassy in Tehran, as well as in Ahwaz and Khorramshahr, in the heart of the Iranian oil province, selecting as its Tehran representative Hani al-Hassan, of al-Fatah's conservative "Muslim" wing, in a move obviously designed to appeal to the Ayatollah.

The PLO is thus now positioned near the heart of the industrial West's main oil reservoir in Saudi Arabia and the Persian Gulf states. And PLO radicals now see themselves closer to realizing Arafat's implied promise after the Camp David conference in September 1978—in response to Zbigniew Brzezinski's earlier phrase, "Bye-bye, PLO"—to threaten the whole U.S. position in the Middle East, a threat repeated in more explicit forms following the signing of the Egypt-Israel peace treaty in Washington, March 26, 1979.

Actually, Iran under the Shah had never been remote from the Palestine question. While keeping a close and special relationship with Israel and supplying it with oil, the Shah had also given at least lip service and diplomatic support to the Palestinian cause. For all his myopia and misjudgment at home, and his delusions of building a new Persian empire abroad based on the armed might he purchased from the United States, the Shah was shrewd enough to recognize that the Palestine question *was* the heart of

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the matter in the Middle East. Once, in an interview with this writer, the Shah used almost the exact words about the PLO spoken by Israeli Foreign Minister Moshe Dayan on February 13, 1979: the PLO "is not a state, but we cannot deny their position or their value in the conflict." The Shah believed that, to reach a peace settlement, "the civilian part, the refugees" would have to be taken into account, "not just the terrorists or the terrorist organization." The Shah in 1967 and 1968, when Ardeshir Zahedi was Iranian Foreign Minister, invited some al-Fatah representatives to Tehran. He even paid small subsidies to the PLO, at a time when the hospitality of most Arab governments toward the PLO was uncertain at best, and consistently ordered Iranian representatives in the United Nations to vote with the Arabs.

Despite this, the PLO leaders had marked the Shah as Israel's strategic ally; they consider his fall to be a major victory for the Palestinian cause. The Shah's regime and the American presence in Iran, which entailed major support to the same U.S. military-industrial complex that supports Israel, were equal targets of the PLO, whose guerrilla organizations trained Iranian revolutionaries in their camps in southern Lebanon, where they mingled with the Lebanese Shi'a villagers and their militias.

What are the implications of the new alliance between the Islamic Republic of Iran and the PLO? Let us start by examining the role of Palestinians and of Shi'a populations in the neighboring Gulf states, the economic consequences of Iran's new orientation, and its immediate military implications for the Arab-Israeli conflict and for present and future conflict in the Gulf area.

All of these are serious enough. But the crux of the problems now exacerbated by the changes in Iranian policy lies, perhaps, in Saudi Arabia; unquestionably, the Saudi position on the Arab-Israeli conflict has now been stiffened, and Saudi fears increased, in ways that bear directly on Saudi-American relations and on the security of the vital oil resources of Saudi Arabia. The alignment of Iran with the Palestinian cause has in turn contributed to the new solidarity of the Arab countries in rejecting anything short of a total peace settlement that deals adequately with Palestinian aspirations as well as with the ultimate problem of East Jerusalem. Realities that U.S. policy had sought to deal with over a long period of time are much more pressing. How the United States responds could, in sober truth, determine whether the emerging situation means, as a PLO leader exuberantly claimed early in the year, "Bye-bye, U.S. interests in the Middle East."

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II

Unquestionably, the Iranian revolution and embrace of the PLO have galvanized both the Palestinians and the Shi'a minorities living on the Arab side of the Gulf. Both communities live in considerable numbers in Iraq, Saudi Arabia, Kuwait, Bahrain, Qatar, and the United Arab Emirates. Their members had carefully followed Ayatollah Khomeini's sermons and exhortations, recorded during the Ayatollah's Paris exile on tape cassettes and sent around the world by couriers and long-distance telephone circuits. The Palestinians and the Shi'a, each for their own reasons, were generally electrified and enthused by the revolutionary victory in Iran. The image which radical elements have gained of the Iranian revolution is that of a victorious Shi'a-Palestinian alliance, which has declared it would go on to new successes for the Palestinian cause.

The Shi'a claim a majority in Iraq, which since the 1958 revolution has been ruled by coalitions of Arab nationalists and the Baath (Arab socialist) party dominated by Sunni Muslim army officers. Shi'a grievances have been both religious (as manifested in Shi'a disturbances in the Shi'a holy cities of Karbala and Najaf) and socioeconomic, with the large Shi'a business community often claiming Baathist-Sunni discrimination against them, as well as against the advancement of Shi'a in the civil service and the armed forces.

Traditionally, the Shi'a community in Iraq has not had effective leadership or organization, and it is too early to tell whether it will become more active in the new situation. But the potential for trouble is there, even though the threat to the Iraqi regime does not compare, at this point, with the renewed activity of the Kurds in Iraq—who had been ruthlessly suppressed by the combined action of Iraq and the Shah's Iran after the rapprochement between the two in 1975, but who are now already in semi-revolt against an Iranian regime whose armed forces are in disorder.

Elsewhere in the Gulf, tradesmen and merchants of Iranian origin largely account for between 30 and 40 percent Shi'a in the Kuwait population. The same groups bring the percentage of Shi'a in Bahrain up to close to 75 percent, 20 percent in Abu Dhabi, 30 percent in Dubai, 20 percent in Qatar, and 50 percent in Oman. These estimates do not include thousands of Iranians who live on the Arab side of the Gulf, since leaving home under the Shah's regime in order to evade military service. Hard-core pro-Khomeini activists were most in evidence, in early 1979, in

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southern Iraq, Kuwait, Bahrain and Dubai. Specifically, the new situation has brought more into the open the "Husseiniyas" (named after the Shi'a martyr, Hussein) or religious study groups, formed in semi-clandestinity on the Arab side of the Gulf. In early 1979, police in Kuwait, Bahrain and the eastern province of Saudi Arabia, near the oil fields, were trying to root out these cells and were arresting and interrogating their members, feeling them to be a potential political fifth column.

As for the Palestinians, estimates generally agree that they number 240,000 to 260,000, or 20 percent of the total population in Kuwait; about 45,000 or 22 percent in Qatar, more than the native-born Qataris; and 40,000 or perhaps 30 percent in the United Arab Emirates, where expatriate workers of all nationalities outnumber the native workers by 18 to one. (At the end of 1978, the total population of the UAE was 877,340, of which UAE citizens totalled only about 210,000.) In Saudi Arabia, Palestinians and Jordanians together total around 110,000. The Palestinian communities in Bahrain (which rarely admits Palestinians at all), Iraq and Oman (which tightly regulates their presence) are relatively much smaller, with very few in the two Yemens. Therefore, there are perhaps a total of 480,000 Palestinians in the entire Arabian Peninsula. Of these, about 150,000 are also registered as residents of Jordan, Syria and Lebanon, or wherever their families happen to live.

But the Palestinian presence is felt in Arabia, and in the opposition of the Arabian Peninsula's governments to President Sadat's peace treaty with Israel, in qualitative, rather than quantitative terms: the Palestinians of Arabia are *not* helpless, jobless refugees, like so many of their brothers and cousins in the camps of Jordan, Syria and Lebanon. Many hold important posts in the civil service, even as advisers to Gulf rulers (especially in Qatar and the UAE), and more work in the oil, banking and contracting sectors. Some have acquired local citizenship. There are also Palestinians serving in the regular armed forces of some of the Gulf and Arabian Peninsula states. Palestinians who are naturalized Kuwaiti citizens are numerous in the Kuwaiti officer corps in particular. (One high-ranking Palestinian in the Kuwaiti army, General Musbeh al-Budairy, was a former commander of the Palestine Liberation Army, the PLO's "conventional" military wing.) And there are a few Palestinians in the Qatar and UAE armed forces.

Virtually all of these "diaspora" Palestinians, despite the strong personal stakes many have built in the local economies, are

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strongly nationalistic and closely attached to the idea of a Palestinian homeland. And, in addition, there has long been underground activity in the Gulf area by the foreign operations branch of the Popular Front for the Liberation of Palestine (PFLP) of George Habbash—with secret cells among the Palestinians of Kuwait and a strongly entrenched position (along with the Democratic Front of Nayef Hawatmeh) in Bahrain's underground leftist movement, which has a long tradition of political and trade union activism. These two radical Palestinian groups have also been active in South Yemen and in Oman, contributing to the military threats to be discussed later.

The presence of PLO groups on the Iranian side of the Gulf could now add new coordination to any Palestinian subversive action on the Arab side. At the very least, the Gulf rulers and the Western oil and other interests working in the Gulf now have to give new weight to the potential revolutionary leverage of both the Shi'a and Palestinian elements throughout the area. One possibility might be disruptions in the oil fields, especially in a situation of heightened tension with Israel over the follow-on provisions of the Camp David agreements. Kuwait in particular might be a target for such action, although the Kuwaiti government has itself taken such a hard-line position that it would probably be able to control unauthorized actions. Historically, Kuwait has been responsive to the pressures of the Palestinians already entrenched there, and the likelihood is that all the Gulf states will maintain their internal stability in part by the same tactic—which, of course, has the effect of further hardening positions on the Arab-Israeli conflict.

III

The first and most obvious economic consequence of the Iran-PLO alliance was the cessation of Iran-Israel trade, and the cutoff of Iranian oil to Israel. Israeli exports to Iran, though only partly compensating for the value of the oil it imported, were not negligible and were estimated at $230 million in their peak year, 1977. (Beyond meeting most of Israel's own needs, much of the oil Israel received from Iran had been pumped through the Eilath-Ashkelon pipeline and then re-exported, in barter or compensation deals, from Israeli Mediterranean ports to Romania and other East European countries.) In immediate response, Israel made certain that the Egypt-Israel peace documents signed in Washington in March 1979 included a provision that the United States

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would guarantee Israel's oil supply for the next 15 years. So far, Israel has apparently been able to ensure its supplies by major stockpiling and by turning to such new sources as Mexico, but the guarantee has further increased the huge American commitment to preserve Israel's security.

Moreover, the National Iranian Oil Company (NIOC) has solemnly promised that it would boycott any international oil company known to be providing crude oil to either Israel or South Africa, even if that oil comes from non-Iranian sources. However, this promise has not been put into effect, despite the whip hand given NIOC by the world supply constriction caused by its temporary total cutoff during the revolutionary period.

More serious may be Iran's new involvement in the Arab economic boycotts of Israel and of Egypt. The Khomeini government announced in the spring of 1979 that it would apply the boycott and blacklist, administered by the Arab League office for that purpose in Damascus, and by the summer of 1979 Western businesses still trying to operate in Iran discovered that contractors were banned if they operate in Israel, and that similar rules were being applied to foreign marketing, manufacturing or trading firms having projects in the Jewish state. Iranian dock workers, customs officials and others concerned with foreign trade had shown they were ready to follow the example of the oilfield workers (predominantly of Arab origin), whose work stoppage had so decisively aided the revolution, by enforcing the Arab boycott and blacklist rules.

The PLO, by mid-1979, should be able to exert more pressure for strict observance of the anti-Israel boycott measures, because it is now firmly entrenched in Tehran and Iranian Gulf ports, such as Bandar Abbas and Khorramshahr. There has long been a PLO economic intelligence unit which follows up on boycott measures in the strictly observant boycotting states, like Syria and Iraq, and which is now able to operate from its new Iranian and Gulf bases. And U.S. companies are more affected than others because of the strict requirements of the U.S. federal anti-boycott legislation. Many firms on the Arab blacklist, and merchant ships as well, had a large portion of their Middle East operations or port calls in Iran.[1]

[1] Although not directly related to the Palestinian tie, one may note that Iran's revolution has led to another kind of apprehension on the part of Western investors and business firms. The Shah's government, like most other governments in the Middle East, required private firms to post irrevocable bank guarantees or letters of credit to secure completion of contracts and performance of contract provisions in good faith. Since the revolution, which has led to

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In the case of Egypt, Iran will now cooperate with the boycott adopted by the major Arab states in the wake of the March peace treaty. The Shah's Iran had made a foreign aid commitment to Egypt estimated at about one billion dollars (much of it for work on the Suez Canal) and the unspent $500 million of this will now be withheld, together with a total freeze on Iranian investments in Egypt.

All told, apart from its universally recognized effect on the world energy supply situation, the Iranian revolution's economic impact is yet to be fully felt or adequately measured. But there can be no doubt that it puts Israel and Egypt under greater economic pressure, and affects a number of American businesses very adversely.

IV

The military impact of the Palestinian-Iranian alliance takes a number of forms, ranging from the Arab-Israeli military balance to the protection of the Strait of Hormuz and the related possibility of a renewed outbreak of the Dhofar rebellion in Oman. Some of these have direct implications for American military policy and action.

As regards the Arab confrontation with Israel, Israeli Defense Minister Ezer Weizman told newsmen during U.S. Defense Secretary Harold Brown's visit in February that even as Egypt is being removed from the roster of Israel's enemies, Iran is being added to it. General Aharon Yaariv, retired former military intelligence chief, now heading the Institute for Strategic Studies at Tel Aviv University, told this writer: "Iran is not going to field an army or send its F-14s against us tomorrow. But in the long run, we have to count the Iranians from now on as a member of the hostile Arab-Islamic coalition." Commanders of the new

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cancellation of around ten billion dollars in U.S. defense or defense-related contracts, U.S. companies have initiated preventive lawsuits in U.S. courts to head off any demands by the Ayatollah Khomeini's regime for payment on these guarantees. Enormous sums are involved. The Federal Reserve Board has estimated that federally insured U.S. banks had $17.75 billion in standby letters of credit outstanding by July 1978. These banks are fearful lest U.S. courts' interference in documentary credit transactions might undermine the basic integrity of the international letter of credit mechanism. U.S. firms, on the other hand, are afraid that Iranian bureaucrats, answerable only to nameless committees that have already shown how they can mete out rough revolutionary justice by executing scores of adherents of the old regime, including at least one Iranian Jewish merchant accused of contacts with Israel, might suddenly demand payment of the standby letters. United Technologies International, Pan American and Stromberg-Carlson were some of the major firms resorting to U.S. courts, but there had been no major confrontations at the time of writing.

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"revolutionary" Iranian armed forces have proudly stated, for Arab newspapermen, "Iran now considers that it is a confrontation state with Israel."

The fact is that the once proud and seemingly solid Iranian armed forces of 480,000 are in a shambles, mainly demobilized and dispersed. About $12 billion in orders for U.S. military equipment, from jet fighters to sidearms, have been cancelled by the revolutionary government. Ironically, Israel drew the first benefit: the Israelis are getting delivery of 55 General Dynamics F-16 fighter planes, part of a $3.5 billion order for the aircraft cancelled in February 1979 because Iran could no longer make payments or train enough personnel to fly and maintain the planes. Some 78 Grumman F-14 Tomcat planes, fully paid for by Iran before the revolution, are being guarded at air bases near Isfahan and Shiraz by the politically purged personnel of the Iranian Air Force. However, U.S. Defense Department sources believe that there are not enough fully trained Iranian pilots to fly all of these planes, or nearly enough trained ground maintenance crews to keep them in operational condition, let alone to service or fly the four or five squadrons of McDonnell Douglas Phantom F-4s which had been operational up to the time of the revolution.

Iran's ground forces are now reduced, in effective terms, to a few small detachments, largely occupied in skirmish actions with Kurdish, Arab Turkomen, Baluchi or Azerbaijani separatists now demanding full autonomy. Although the Iranian navy and air force have suffered less attrition, the sum total of Iran's military power is hardly likely to constitute any significant additional threat to Israel in the foreseeable future.

More portentous, however, is the fact that Iran has given up most of its air and naval outposts in the Persian Gulf, Oman and on the coast of the Arabian Sea. The site of what was to be the Shah's great strategic air and naval base of Shah Behar, on the Arabian Sea not far from Pakistani territory, is now abandoned, probably destined to become a fishing port. And Iranian forces which had been supporting the army of the Sultan of Oman against Marxist insurgents from South Yemen operating in Oman's southwestern province of Dhofar, have been recalled. They had included, at the peak of their strength, about 4,500 men, including elite ranger and counterinsurgency troops. At this writing, the new Iranian regime was still maintaining a garrison on Abu Musa island, seized together with two smaller islands owned by Arab emirates in 1971. But there remained no direct

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Iranian military presence elsewhere in the Gulf.[2]

In Oman, the Shah's army had played a special role in helping the Sultan suppress the Dhofar rebellion of 1969–1977 and even its reduced presence since then played a crucial stabilizing role. Now, the Popular Front for the Liberation of Oman (PFLO) is showing clear signs of reviving the revolt, and has the cooperation of George Habbash's PFLP Palestinians. The result could be the most immediate threat of trouble in the area, with the potential of spreading, through radical Palestinian links, to other areas of the Gulf in the form at least of scattered disruptive activity, in the oil fields in particular.

Moreover, what happens in Oman has a direct bearing on the security of the adjacent Strait of Hormuz. Here the withdrawal this spring of Iranian naval patrols creates a serious additional problem of its own, compounded by the effective withdrawal and helplessness of the Iranian air force. Through the narrow Strait pass an unending succession of tankers, carrying oil to all the markets of the West and the Far East, as well as Soviet and U.S. naval vessels. The Shah's Iran has served as watchman; now this crucial choke point is for practical purposes unguarded and unwatched. Saudi officials have told top members of the Carter Administration that they are extremely worried about the nightmarish possibility of a terrorist strike, such as mining of the shipping channel or the sinking of a supertanker to block it.[3] However, the Saudis themselves have not been willing to permit or condone the stationing of U.S. air or naval forces close enough to the Strait to protect them.

Meanwhile, the Sultan of Oman, concerned to replace the departed Iranian forces, has asked the United States to step in with military aid, and in May 1979 a modest U.S. aid package—including artillery, antitank rockets and helicopters—had been decided on by the Administration and was being assembled for shipment. At the same time, the Sultan broached the subject of U.S. aircraft using on a regular basis the former Royal Air Force base on Masirah Island, well southwest of the Strait but within useful range, and on the U.S. side there has been a proposal to

[2] The Shah's forces in Abadan and other points around the oil fields and oil ports of the Gulf had been close enough to permit the Shah several times to reassure the Kuwaiti rulers that any new attempt by Iraq, which wanted to annex Kuwait in 1961 when Kuwait won full independence from Britain, would bring Iranian intervention against Iraq. However, relations between Iraq and Kuwait are now friendly, and any renewal of that conflict now seems unlikely.

[3] On June 11, 1971, a speedboat manned by Palestinian guerrillas made an unsuccessful rocket attack on the *Coral Sea*, a Liberian-registered tanker bound for Israel, near the Strait of Bab al-Mandeb at the southern entrance to the Red Sea.

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install sensing equipment in Oman that could keep traffic through the Strait under the same kind of surveillance that exists at Gibraltar. However, these latter possibilities have not yet been agreed upon or worked out, partly because the additional aid sought by the Sultan is substantial. For purposes of internal security, moreover, the Sultan has in the past had ties to the British, and British officers are still serving with the Omani forces. There may be room here for a division of effort designed to assure both Oman's security and adequate policing of the Strait, although the question of additional Western naval forces in the Gulf would require careful negotiation since U.S. naval use of Bahrain has been sharply curtailed in recent years. A renewed U.S. presence might run into problems stirred up by the radical elements mentioned earlier, as well as objections by the new Iranian regime.

V

Let us turn now to Saudi Arabia. Some of its concerns have already been suggested: what happens elsewhere in the Gulf could hardly fail to have serious repercussions within Saudi Arabia and in terms of Saudi interests, which include the preservation of a strong U.S. protecting role. But there are even more specific ways in which the new alliance between the Ayatollah's Iran and the Palestinians affects the Saudi situation.

In February 1979, as Secretary Brown visited the Middle East to assess the apprehensions of the region's leaders and their desires as to U.S. support, several Saudi cabinet ministers expressed their concern that the immigrant workers in the Kingdom, already close to one-and-a-half million in a total estimated population of eight million and still growing, might prove to be equally as subversive of Saudi institutions as the oilfield workers of Iran's Khuzistan area had been during the long strike that was decisive in the Shah's overthrow. And in that non-Saudi work force, although the Palestinian element numbers only some 110,000, it plays a crucial role, with some 60–65 percent of the total work force of the Arabian-American Oil Company (ARAMCO) consisting of Palestinians or Palestinian-born Jordanians. The temper of the situation can be gauged from the fact that, even before this year, ARAMCO, with Saudi support, excluded these workers from sensitive installations such as the Ras Tanura refinery and tanker loading terminal.

Whether the non-Saudi elements, and the Palestinians in particular, may constitute any serious threat to the regime is impos-

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sible to predict. There are no significant Shi'a elements in Saudi Arabia except in isolated pockets in the eastern province, and the strong adherence of the basic Saudi population to Wahhabism, plus the wide royal family network extending throughout the Kingdom, plainly make the basic situation very different from that of the Shah's Iran.

The security of the oil fields themselves could be a different and more serious question. As far back as the summer of 1973, the Saudi Petroleum Minister, Sheikh Ahmed Zaki Yamani, told this writer: "If war comes, we will have to shut off the oil. You know about the Palestinians and the other foreigners we have around us. Even if we deployed the entire Saudi army and national guard around the oil fields, we could not prevent sabotage by a handful of trained and determined professional saboteurs." And in a conversation which took place shortly after the implantation of the PLO mission in Tehran in the winter of 1979, Faruq al-Qaddumi, the "foreign minister" of the PLO's political brain trust, is said to have warned Prince Saud al-Faisal, the Saudi Foreign Minister, of the vulnerability of the Saudi oil fields, and also of the Islamic holy places, in case of general hostilities in the Middle East. Prince Saud responded: "The holy places are protected by God; as for the oil fields, they are protected by man."

The ultimate Saudi nightmare is, of course, a renewal of hostilities between Israel and the Arab states, with the United States inevitably assisting Israel. If such a thing happened, as one Saudi minister put it to this writer, how could the United States protect even its own vast oil interests, let alone the interests of its Saudi "ally" and friend? No matter how much the Saudis fear Soviet expansion, whether from South Yemen and Ethiopia, or from a total breakup of Iran and a Soviet military move to fill the vacuum that might leave, they still fear a showdown with Israel, in which Israel would again enjoy total U.S. support, even more. This is the real core of the Saudi dilemma, which has been deepened by the Iranian crisis.

Now, with the Palestinians more active and demanding, and with their new ties to Iran, the threat of sabotage to the oil fields must be taken into account even in a situation short of renewed war, and specifically if there should be a continuation and increase in the tension that already surrounds the ongoing negotiations over the West Bank and Gaza Strip, where basic Palestinian aspirations center. The fundamental Saudi position on the Arab-Israeli conflict, shared by all the ruling royal family, has always insisted on a comprehensive peace settlement that includes the

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return of East Jerusalem to some form of Arab control and a future, self-governing homeland for the Palestinian Arabs. These have been and still remain the twin pillars of Saudi policy and, in the words of one highly qualified U.S. observer of the Saudi scene, "No amount of persuasion, pleading or pressure by the U.S. Administration will change this, wishful thinking to the contrary." The point is, that in the face of increased pressures and threats, the Saudis have become, even since last September, decidedly more impatient and more demanding of early and visible progress toward these goals. And this, of course, accounts for the hard-line position they have taken at the two Baghdad meetings of November 1978 and March 1979, and in large part for their current deep dissatisfaction with American actions and policy.

The repercussions have also been evident in the internal differences between two schools of thought in the Saudi leadership. For some time these differences have been latent; now, in the face of Iran's alliance with the radical Arabs, they have become much more evident and important. To describe these differences as a "power struggle" or even "serious internal dissension"—as some Western commentators have been prone to do in recent months—is erroneous and misleading. What unites the whole of the royal family is far more deep-seated than such terms would suggest, and the question of the succession, which for a time created serious rivalry, has been worked out since 1977 (when King Khalid was hospitalized in London).

Yet, at the risk of oversimplifying the complex pattern of Saudi royal politics, there are today two important schools of thought, and the top leaders, King Khalid himself and Crown Prince Fahd, incline sometimes to the one and sometimes to the other. On the one hand, the "pro-American" school, according to insiders, is represented by most of the royal princes of the Sudairy family, one of the two main clans whose members hold many top posts. It includes Prince Sultan, the Minister of Defense and Aviation, and some leading commoners, including Sheikh Ahmed Zaki Yamani, the Petroleum Minister. The opposing, or rival clan, is led by Prince Abdullah of the Shomar family and, behind the scenes, by Prince Abdullah's elder full brother, Prince Muhammad, who voluntarily renounced his senior claim to the throne after King Faisal's murder in 1974, in exchange for Sudairy assurances that Abdullah would be in direct line to succeed Fahd as Crown Prince. Its views may be described broadly as "Arab nationalist" or "pro-Arab" for shorthand purposes.

The "pro-Americans," like their rivals the "pro-Arabs," are

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convinced that the United States holds the key to the future relationship between Israel and the Arab world, partly because of its growing dependence on Saudi oil (stemming from inability to solve its energy problem by developing alternative sources and by consuming less oil), partly because of its special links with Israel. They have argued ever since the 1973–74 Arab oil embargo that the Saudis should cultivate the American connection because the enlightened self-interest of both states lies in that direction. Yamani, with approval of both King Khalid and Prince Fahd, immediately raised Saudi production after the Iranian oil cutoff from an average of less than 8.5 million barrels per day (mb/d) to about 9.5 million barrels to help make up the shortfall and so accommodate the United States and the rest of the industrial world. Sheikh Yamani, however, admitted to a meeting in London last February that this step was "straining our capacity. . . . At present we are producing at about 1.5 mb/d more than we should, and accumulating a surplus which we don't need." The Saudis continued to resist, as they had at the OPEC conference in Abu Dhabi in December 1978, further upward turns of the OPEC oil price screw, as well as any moves away from the dollar as the standard for pricing oil, which would have had disastrous effects on the U.S. economy.

The other faction, with Abdullah as its main spokesman, and which in matters of oil production and domestic policy includes such leading, U.S.-trained technocrats as Sheikh Hisham Nazir, the Planning Minister, and Finance Minister Muhammad Aba al-Khail, favors oil conservation and lower levels of production and a rapprochement with Iraq and the other Arab states. Prince Saud al-Faisal, the present Foreign Minister, favors this "Arab nationalist" view and believes in balancing continued good relations with the United States by exploring any possible advantages which might be gained through ending the long proscription against relations with the Soviet Union—and in a policy toward the peace settlement, the recovery of Jerusalem and the future of the Palestinians which is militant, but sufficiently thoughtful and measured to bring Egypt eventually back to the Arab fold.

Crown Prince Fahd, though a Sudairy himself, has been in some senses an arbiter between the two factions. (By temperament, he tends to reserve judgment and to assess all factors before taking a position, and his inclination to listen with apparent understanding has sometimes caused him to be misunderstood by Westerners.) Thus, although basically adopting the hard-line policy followed this past winter, he has also endorsed and supported

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moves by the "pro-American" Saudis to mitigate Arab sanctions against Sadat. During the Arab Foreign and Economic Ministers' conference in Baghdad March 27–31, 1979, which voted a set of sanctions against Egypt for signing the treaty with Israel, the Saudi delegation vetoed a PLO call for an Islamic summit, strongly supported from the sidelines by the Iranian revolutionary government. (The PLO wanted to include the Islamic Republic of Iran in such a conference, in order to get anti-Egypt sanctions and the economic boycott of Egypt to be applied by all Islamic member states.) Though the Saudis have withdrawn most of their financial aid from Sadat, Crown Prince Fahd has successfully argued, with other Saudi leaders, that complete isolation and humiliation of Egypt must be avoided at all costs, so as not to bring about Sadat's overthrow and his replacement by a radical Egyptian leadership, whose actions might destabilize the entire region and plunge it into turmoil which could threaten Saudi institutions as well.

The rivalry between the two schools, as well as their occasional complementary character, has been seen in the last six months in the Saudi response both to developments in Iran and to South Yemen's military action against North Yemen. Abdullah's biggest power factor in Saudi Arabia is his control of the 30,000-man, U.S.-trained National Guard. After the Shah's departure from Iran, Abdullah quietly redeployed about 60 to 70 percent of the Guard, also called the "White" or tribal army, around the eastern province to seal off the oil fields. Prince Sultan, who as Minister of Defense and Aviation controls the regular army and the air force (the navy is still embryonic, and is being built from the ground up by the U.S. Navy and Corps of Engineers, which has contracted for a series of naval bases on the Gulf coast) did not move immediately to mobilize his forces. Sultan waited until South Yemeni troops, backed by Soviet, Cuban and East German advisers, moved into North Yemen in February and temporarily gained the initiative. Prince Sultan then ordered a full alert and partial mobilization, and Abdullah followed by doing the same for his National Guard troops.

After a tense cabinet meeting on February 28 in Riyadh, the government chose wording proposed by Sultan for its communiqué: "The Yemeni border conflict and the support given to rebel forces as a coverup for aggression endangers not only the security and stability of the kingdom, but also of the countries of the Arabian Peninsula. It is feared that the conflict may spread to

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other parts of the Arab nation, with unforeseen consequences."

Saudi Arabia's two-track policy of calling on U.S. help while working for inter-Arab conciliation then bore fruit. After preliminary agreement with Defense Secretary Brown during his February visit, the Saudis were pleased by the American response: a speedup in deliveries of old arms orders to North Yemen totaling $139 million dollars, and the unprecedented action by President Carter of declaring immediate aid to North Yemen worth about $400 million to be in the U.S. national interest, and so obtaining a waiver of congressional approval. Special U.S. weapons-training teams were then dispatched to Saudi Arabia and to North Yemen.

Almost simultaneously, Abdullah and Saud al-Faisal were instrumental in bringing about mediation which led to a meeting between the North and South Yemeni leaders in Kuwait in late March. They confirmed earlier ceasefire accords, and agreed to renew their old union project, signed after an earlier conflict (which involved direct Saudi-South Yemeni hostilities not far from some of ARAMCO's southernmost drilling sites in the Rub al-Khali Desert north of South Yemen's Hadhramaut) under pressure from Colonel Muammar al-Qaddafi, the Libyan leader. The renewal of the North-South union project settled nothing, but gained time for both sides as the U.S. arms deliveries to the North went ahead on schedule and the Soviet ones continued to the South, making Yemen a likely center of more conflict on the Western oil reservoir's approaches, as it has been in the past.

Thus, in the case of the Yemen crisis, the two contending viewpoints in the Saudi leadership turned out to be complementary and useful for the time being. But the division remains an important one. If the balance should move clearly to the "Arab nationalist" group, as it may well do if no progress is visible in American efforts to move the West Bank/Gaza negotiations forward, the consequences could be an even greater chilling of Saudi-American relations. For all the Saudi leaders, without exception, have been profoundly shaken by the Iranian revolution—which they believe the United States could and should have thwarted in some way—and doubly disturbed by the alliance between post-revolutionary Iran and the Palestinians.

VI

In sum, the change from the Shah's Iran to an Iranian regime allied with the Palestinians and supporting totally the hard-line Arab position toward Israel has had a profound and multifaceted

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impact on the whole Gulf situation. Already the Carter Administration has been forced to respond by new measures of military aid to North Yemen, and now by a modest program in Oman. But the problems have only begun to unfold.

Since the Iranian revolution, there have been growing signs that the U.S. Administration, however reluctantly, has begun to "think the unthinkable" and plan for contingencies of military intervention, if that should become the only way open to keep the oil flowing. Secretary of State Cyrus Vance, Defense Secretary Harold Brown and Energy Secretary James Schlesinger have all said or hinted strongly that the United States would, under extreme circumstances, fight to protect the flow of oil, either from Soviet interference, or a cutoff caused by other hostile forces in the area, such as action by the Palestinian guerrillas and radical Arab states, or even their Iranian allies. "There is no question," said Secretary Vance on CBS-TV's "Face the Nation" on March 18, "that we have vital interests" in the Persian Gulf. "We consider the territorial integrity and security of Saudi Arabia a matter of fundamental interest to the United States. We're talking about the stability of the region, which is important not just to the United States but to the world."

The U.S. Joint Chiefs of Staff have been studying the designation of a new U.S. Fifth Fleet and its deployment to the Indian Ocean, requiring stripping assets, including one aircraft carrier, from the Atlantic and/or Pacific. The Pentagon has also been studying how U.S. mobile strike forces could be deployed and used in the Gulf. An "Issue Brief," prepared by analysts of the U.S. Library of Congress' Congressional Research Service in April 1979, foresaw two eventualities in which the United States might use military force: "[Oil] producing states might ask for U.S. assistance if they risked losing resources as a result of internal turmoil or attacks by a hostile power." Or, "U.S. leaders might contemplate seizing selected foreign oil fields if embargoes or unbearable price-gouging created chaos in the United States or elsewhere in the industrial world." The study concluded that the United States could spare troops and the sea and airlift facilities to speed them to the Gulf in time only if there were no major war or crisis elsewhere in the world, and only at the risk of serious conflict, perhaps a nuclear one, with the Soviets.

Whatever form the new threats to stability and oil supplies may take, the fundamental question for American political policy is whether to oppose the new tide of radicalism represented by the Iranian-Palestinian alliance, or to seek to moderate it by working

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through such Arab allies as the Saudis. And if the latter remains the U.S. choice—as it clearly is—can the Saudis and the smaller Arab states of the Gulf, which look to them for leadership, remain such good friends and allies of the United States as they have been if the negotiations between Egypt and Israel for Palestinian self-determination and the future of the West Bank and Gaza, occupied by Israel in 1967, continue to appear as fruitless as their early prospects appear? This would appear to be the key challenge to U.S. foreign policy in the Mideast in the wake of the Iranian revolution.

Despite U.S. commitments to Israel not to include the PLO in the peace negotiations, it is now more than ever necessary that some way be found, and the sooner the better, to allow the Palestinians meaningful participation in the peace process. If this were done, the principal radical Arab argument—that the United States has no intention of seeking a real and just settlement for the Palestinians—would lose its force. Saudi Arabia, Jordan and other Arab governments which have been true friends and allies of the United States, but which are now drifting away, as U.S. Congressmen, commentators and others accuse them of sabotaging U.S. peace efforts, might be encouraged to renew their confidence in this country and its ideals. Sooner or later, this will involve doing what no U.S. administration has been willing to do since the Eisenhower Administration asked the Israelis to withdraw from Sinai and Gaza in 1957: confronting Israel on the issue of the Palestinian territories she occupied in 1967, and which she gives every evidence of wanting to acquire as permanent parts of her domain.

The United States, too, should carefully analyze and seek to understand, with the heart as well as the head, the human aspirations lying behind the Islamic revival, one aspect of the Iranian revolution and its search for allies elsewhere which seems to be sweeping a major part of the globe. Washington would be well advised to let the Iranian revolution and its ramifications in the Arab and Islamic worlds, which are far from finished, run its course without further U.S. interference in Iran.

This is not to say that the United States should condone violence and terrorism by either the Palestinians and their radical Arab allies, the violent responses of Israel to this terrorism, or the mass executions and other abuses of basic human rights that have proliferated in Iran since the revolution there. In approaching its relations with a bewildering variety of regimes in the Islamic world, from Morocco to Indonesia, the United States must more

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carefully study and learn to live, without collision if possible, with two basic trends: aggrieved nationalism, and aroused, reactive Islamic fundamentalism. There is a growing tendency to play up and to encourage, perhaps unconsciously, intersectarian and ethnic quarrels of the sort that split Lebanon asunder in 1975–76, and that now seem to be threatening Iran, Afghanistan, Turkey, and other countries on the periphery of the Soviet Union or China.

By avoiding partisan involvement in such quarrels, it may be possible to overcome the image of the United States, held in many countries of the Third World, as an ill-informed, indecisive giant which supports only dictatorial figures like the Shah. If Iran has taught us any lessons, one should be that part of the art of successful diplomacy, in an age increasingly dominated by the agonizing questions of oil and energy, lies in the difficult task of matching our own strategic needs with the domestic welfare and interests of friends on whom we depend, and who also depend on us.

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Raymond Vernon

THE FRAGILE FOUNDATIONS OF EAST-WEST TRADE

If wishing can make it so, the trade between the advanced industrialized countries of the West and the command economies of the East will be growing rapidly in the years ahead. The Soviet Union has made no bones about its strong desire to expand the scope of East-West trade. Businessmen, bureaucrats and politicians in the Western countries have been only a little more equivocal. Some countries have made an occasional effort to screen out technologies with important military application, while the United States has also sought to break down Soviet restrictions on the emigration of Russian Jews. But the West, too, has been on the side of expanded trade.

All told, the drive on both sides for more East-West trade has had its effect. Over the past 15 years, the annual trade of the U.S.S.R. and its COMECON partners with the advanced industrialized countries has managed to grow tenfold from about $3.5 billion to over $35 billion. What I suggest is that if such trade continues to grow at a rapid pace, frictions and obstructions will appear with increasing frequency. Under the existing institutions and rules of the game, increased East-West trade will strain the trading relations among the Western states, and will distribute the economic benefits of trade disproportionately to the East. As these effects become apparent, they will raise serious questions about the value of such trade for the West.

Yet it makes very little sense for the United States or any other country to attempt to suppress the growth of East-West trade. If appropriate rules of the game can be devised and adopted, such trade can bring economic benefits to both sides. Besides, if the United States were to attempt a policy of suppression, the effort would almost surely fail. But before it failed, it would generate

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major political costs both within the Western community and in relations with the East.

The challenge, therefore, is to devise a set of institutions and procedures that is compatible with a growing volume of East-West trade—but one that responds adequately to the interests of both sides. If my analysis is correct, any such regime will be difficult to put together. Some considerable consensus will have to be developed among the Western countries as to the nature of the problem and the direction of the appropriate remedy. As part of the appropriate response, the United States may be obliged to give up its sporadic efforts to use trade in order to extract political concessions from the U.S.S.R. Effective action may even require the tacit understanding of the Soviet Union itself.

As realists, of course, we must face up to the chance that none of these steps will prove possible. In that case, we may have to sit by until the increasing frictions and mounting obstructions eventually convey the necessary message.[1]

II

If Adam Smith were observing the nations of Western Europe and North America today, he would see little to connect them with the ideal open markets of his *Wealth of Nations.* Yet these Western economies still are predominantly market economies, in which market-determined prices, costs and profits play a key role. Some observers assume that these traits will be compromised over time, and that the West will develop an international system which is much more highly regulated. They point out that Western governments already conduct their trade in food, oil, gas, shipping, aviation, armaments and various raw materials under special rules not wholly consistent with the open market system. Moreover, wherever big, one-shot deals have been involved, such as the sale of ten B-747s or of a billion-dollar steel mill, these have been arranged under rules *sui generis.* Today, these aberrations are supplemented by an expanding number of bilateral "voluntary" export agreements, especially with the new crop of industrializing developing countries. If most of the trade among the so-called market economies comes to be conducted on the basis of such

[1] Of course, if the U.S.S.R. proves incapable of expanding its foreign trade very much in spite of the desires of its leaders, as some experts think, the problem may be put off. See Richard Portes, "East, West, and South: The Role of the Centrally Planned Economies in the International Economy," Discussion Paper No. 630, Harvard Institute of Economic Research, June, 1978.

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"state" arrangements, it would not be very difficult for those countries to deal with the special problems of East-West trade.

What is a plausible projection, then, of the future economic patterns inside the Western economies and of the trading system that is likely to prevail among them? Such a projection, it seems to me, is an indispensable preliminary step in trying to puzzle out what the effects would be of greatly increased trade between the West and the Soviet Union.

The odd thing is that almost any projection of Western economic patterns and of their future trade relations seems prima facie implausible. To begin with, it is implausible to assume that the important role played by the market inside such economies and among such countries will continue with the same strength in the future; the demands of one special group or another for protection from the rude impact of open competition seem greater than ever. Yet it is just as implausible to assume that the Western economies will greatly control the operations of the open market, whether in their internal structures or in trade among them. The ideological and economic interests that would resist any such curtailment seem formidable; indeed, the economic interests that have a stake in maintaining an open market have never been so large. Moreover, any country that takes a substantial step toward closing its borders is exposed to retaliation, on a scale unmatched in history.

My expectation, therefore, is that the Western economies will back into a new set of relationships, one that tries to retain some considerable measure of national and international market freedom accompanied by some substantial capability for responding to the demands of their threatened sectors. The only such set of relationships I can envisage entails a tightening of the ties among a relatively limited number of Western countries that are historically committed to the extensive use of the market mechanism, a grouping that seeks to achieve its measures of economic adjustment by joint action. This begins to sound like a modified free-trade area among some subset of advanced industrial countries of the OECD: an area in which monetary, fiscal, agricultural, industrial, and conjunctional policy are developed and applied with some measure of coordination; and an area with some common economic policies toward outsiders.[2]

[2] The 24 member countries of the Organization for Economic Cooperation and Development are Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. The European Communities and Yugoslavia have limited participant status.

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But if such a system actually developed, the economies of its members would still remain substantially different from that of the U.S.S.R. For the West, the underlying rule would still be that any trade can take place unless a government prevents it; while for members of COMECON, and especially for the U.S.S.R., the rule would be that no trade takes place unless the state initiates it. Inside the Western economies, firms would still be buying inputs at something resembling an open market price and selling their outputs at such a price; and internal prices would still be linked directly to foreign prices by comparatively low trade and payment barriers plus a convertible currency.

Meanwhile, inside the Soviet Union internal prices and costs would only be linked to foreign prices and costs to the extent that the central planning process chose to make the linkage. Any direct or automatic linkage would be prevented by: a prohibition of international trade and payments except when conducted by authorized intermediary agencies; a requirement that internal producers deliver designated goods for export or accept foreign goods through intermediary Soviet agencies, without regard to price; and a domestic currency that has no value outside the U.S.S.R.[3]

These differences would mean, among many other things, that the Soviet Union could restrict its trade (as it does today) simply by failing to act; whereas any restriction on the Western side would require (as it does today) some visible restrictive measures.

The differences between any future regime that may be foreseen among the market economies and the inherent features of the Soviet system are apparent not only in international trade but also in foreign direct investment. Under present conditions, it seems somewhat farfetched to think of substantial foreign direct investment on the part of the Soviets. Nevertheless, if the foreign trade of the U.S.S.R. should expand very much—especially if it should expand in manufactured products—the country will be pushed to set up servicing and assembling facilities in some of its overseas markets. Soviet authorities, for instance, have talked more than once about expanding their exports of Lada automobiles from the present trickle to something more substantial. But that step is hard to contemplate unless the Soviet Union or its agents are prepared to set up substantial facilities in some of the markets to which Ladas are exported.

[3] For a recent description, see E. A. Hewett, "Most-Favored-Nation Treatment in Trade Under Control Planning," *Slavic Review*, March 1978, pp. 25–39.

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Among the market economies, governments are gradually beginning to face up to the issues associated with the operations of multinational enterprises in their respective economies.[4] It is already fairly clear that, as this type of business structure grows in relative importance in the market economies, the countries concerned will have to find new ways of sorting out the jurisdictional frictions among them; subjects such as taxation, restrictive business practices, security controls, political activity, and labor relations, among others, could well be involved in such discussions. In general, the home countries of such enterprises are likely to find themselves increasingly restrained by international agreement whenever they contemplate reaching out to control the foreign subsidiaries of their firms.

For the U.S.S.R., on the other hand, the tie between the home government and the overseas subsidiaries of Soviet firms will probably always be strong. On command from the ministries of the U.S.S.R., for instance, Soviet firms would be expected to withdraw from any country declared to be non grata; or to make their liquid business assets available to the Soviet Union; or to discriminate in the choice of customers and suppliers. For the present, how to integrate such actors into the Western system seems unclear.

III

The means by which the two systems seek to gain from international transactions are thus markedly different. The Soviet system is based on the proposition that social gain is maximized by the state's commands. The American system, like the system of most Western countries, is fashioned on the proposition that as individuals pursue their private gain, the benefits for the country will exceed its costs, yielding a social gain.

The fact is, however, that private gain to the American parties in any individual transaction does not correspond to U.S. social gain. The private parties in the transaction may be subsidized from the public sector, through Export-Import Bank loans or through research subsidies. Even when not subsidized, their otherwise profitable transactions may have implications for inflation or unemployment or national defense which turn private gain into social loss. The classic case, of course, was the Great Grain Robbery of 1972; but other less spectacular cases are sometimes cited as well. Nevertheless, as far as U.S. policies and practices are

[4] See my article, "Multinationals: No Strings Attached," *Foreign Policy*, Winter 1978, pp. 121-34.

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concerned, private gain in any given transaction is both a necessary condition and a sufficient condition for any trade or investment. Social gain alone is neither necessary nor sufficient.

As long as an American is engaged in trade or investment with another Western country, the gap between private gain and social gain is fairly tolerable. In the case of those countries, the situation in theory is broadly reciprocal. That is, the private firms of any Western nation engage in trade or investment with those of another nation in the group whenever they see an opportunity for private gain, irrespective of the social economic consequences of their transactions for their home economies as a whole. (That proposition is less true of trade or investment with Japan—a fact that explains in part the underlying tensions in the West in economic relations with that country.)

Of course, Soviet traders do not always manage to capture a social gain for their own country. Decisions may be taken in the Soviet Union out of fear or ignorance or stupidity or the narrow interests of some portion of the Soviet bureaucracy. But it would be prudent to assume that the U.S.S.R. would not sell any product to the West if the sale entailed any obvious social loss for the Soviet Union. At the same time, the point should not be lost that Moscow can readily block any transaction that might entail an obvious social gain for the West.

Accordingly, trade and investment relations between the West and the U.S.S.R. are conducted on a chancy basis. In some transactions, to be sure, both sides may find themselves gaining in social terms. For instance, the Soviet Union may sell the United States much-needed oil while we sell them badly needed grain; the chief advantages to us may be a dampening of inflation, and to them a dampening of political discontent. In other transactions, however, the Soviets may gain while we lose in social terms: the U.S.S.R. may gain some new technology, while the United States acquires a new competitor in international markets. In sum, a lopsided relationship exists that should qualify our enthusiasm for an expansion of trade and investment with the Soviet Union, as long as these transactions are conducted through existing institutions and ground rules.[5]

IV

A more familiar concern with regard to Soviet economic relations with the West is that the U.S.S.R. is in a position to exercise

[5] The idea is hardly new. See my article "Apparatchiks and Entrepreneurs: U.S.-Soviet Economic Relations," *Foreign Affairs*, January 1974, pp. 249-62.

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its power as sole supplier or sole purchaser in trading transactions with competing Western businessmen, thus capturing most or all of the gains from trade.

This argument has been repeatedly advanced and repeatedly pooh-poohed by some economists familiar with the structure of East-West trade.[6] The counter-argument has been that, as buyers, the Russians are not all that important to the West; and as sellers, they contribute only marginal quantities of any given product to the West. Accordingly, they are seen as price takers, unable to determine the level of market prices, rather than as giant forces determining the prices in such markets.

It is important not to exaggerate the extent of Soviet economic power. But it is wrong to assume that such power is trivial. The trade relations of the Soviet Union and COMECON with various European countries, for instance, are substantial. Besides, our concern here is not with the existing level of trade and investment, but with a substantially expanded level. Finally, there are some peculiarities of pricing on both the buying and the selling side of Soviet trade that merit substantial concern.

Sales by the West to the U.S.S.R. in recent years have included a considerable amount of technology; sometimes these sales have been associated with the sale of capital equipment, sometimes not. It is customary to think of sellers of technology as monopolists or oligopolists, capable of exacting a rent from buyers. But, of course, practically all sellers of modern technology confront competitors or near-competitors offering some alternative technological approach.

Where such competition exists, the U.S.S.R. appears to be in an excellent position to exploit that fact. First of all, few sellers to the Soviets are interested in making an isolated sale, however large that sale may be; most sellers are aware that firms with a prior record in the Soviet Union have an inside track for the future. Accordingly, there is good reason in the interest of future sales to price the technology low. To be sure, this tendency is not unknown in Western markets. But the difference is an important one of degree. In Western markets, the sellers can ordinarily hope to make multiple sales of a given technology; in the U.S.S.R., just one. In Western markets, the seller has his eye on developing a privileged position with one buyer if he can; in the case of the U.S.S.R., his eye is on access to a whole economy. Accordingly, the temptation to cut prices may be commensurately stronger.

[6] See, for instance, *Economic Relations Between East and West: Prospects and Problems*, Washington, D.C.: Brookings Institution, 1978.

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That temptation is strengthened by still another factor. If a Western firm fails to sell its technology to the Soviet Union, it cannot hope to exploit the technology inside the U.S.S.R. by other means, such as exports or licensing or production through subsidiaries. When the firm sells its technology, therefore, it gives up nothing in the way of alternative opportunities. This means that a floor price, which would exist if the Western sellers were making their offers in a market economy, is not present in sales to the Soviets. Inasmuch as the added costs to the firm of generating the technology for sale to the U.S.S.R. is usually zero or near zero, there is almost no restraint on how deeply the seller can cut the price.

Taken together, these factors seem likely to create a powerful downward push on sales prices. Inasmuch as the actual facts in the case are not well known, this conclusion can only be stated as surmise. Nevertheless, the surmise seems sufficiently plausible to justify a certain amount of caution while gaining a better grasp of the facts.

As for the pricing of goods and services exported by the Soviet Union, this, too, has certain peculiarities. The mix of products and services offered by the Soviets for sale in the open market will be determined by the national economic plan, supplemented from time to time by items that have been overproduced in the U.S.S.R. or acquired in barter with other countries. The sales goals will often be stated in physical units, and the rewards to the selling agency will depend heavily on whether its physical targets are met. Since the Soviet Union separates internal costs from external prices, such costs need not serve as much of a constraint. Instead, the foreign price fixed for these products and services will characteristically be the closest competitor's price, discounted just enough to meet the sales target.

Another price problem associated with Russian trade stems from the fact that many East-West transactions are barter trades that characteristically swap Soviet goods for Western technology or goods. These swaps take a number of different forms. One consists of straight barter of specified quantities of goods, such as American soft drinks for Russian vodka; another more generalized form allows the Western partner to choose from a shopping list; a third consists of barter that pays off the Western partner with future output from a specified plant—so-called compensation deals. The swap in its various forms has peculiarities that place its control largely in Soviet hands. For instance, the volume of goods to be sold by the foreigner in the U.S.S.R. is always under Soviet

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control, simply because the state controls the distribution channels; so are the quantity and character of the goods available in return, which are mediated by the export ministries.

Some forms of swap arrangements also exacerbate the problem of marginal pricing to a degree that elevates the problem to major proportions. In compensation deals, for instance, there is commonly a long interval between the time when the Western partner delivers a plant or other capital goods to the U.S.S.R. and the time when it receives some of the resulting output as compensation. When such an interval exists, the Western partner receives its return long after its own costs are only a matter of memory. At that stage, the Western partner may be willing to accept any price in the resale of the Soviet merchandise received. Occidental Oil's recent sales of Russian ammonia in the U.S. market raise many of these issues.

One response of the market economies to this group of problems in years past has been to try to apply the rules of the market economy by analogy to trade with command economies. If this approach were ever applied, however, the markup of state trading importers would be analogous to a tariff and would be subject to negotiation; importers would be duty-bound not to discriminate among different sources of supply, and so on.[7] Any approach of this sort is a nonstarter. Because the internal prices of the U.S.S.R. have been totally insulated from foreign prices, the market analogy is meaningless.

To be sure, the Soviet Union has undertaken in bilateral agreements with the United States and with various European countries to provide a response of sorts. The U.S.S.R. undertakes in such cases to cease exporting products to a given market which the importing partner feels will "cause, threaten, or contribute to the disruption of its domestic market." Although this formula no doubt is offered in good faith by the Russian side, it nevertheless lays all the political onus on the West. The Soviets can limit the entry of Western goods without taking any overt act—simply by failing to buy. The Western partner, on the other hand, must explicitly invoke the disruption clause, a step that cannot avoid having political overtones. Similarly with export restrictions: the U.S.S.R. can limit the export of its products simply by failing to sell; but the Western partner will have explicitly to restrain its sellers in order to achieve the same result. The hesitation of

[7] See, for example, *Havana Charter for an International Trade Organization*, Articles 29, 30 and 31, adopted by the Economic and Social Council of the United Nations conference in Havana, Cuba, November 14, 1947-March 24, 1948.

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Europe to invoke this kind of clause because of political considerations has been palpable in the past year or two.[8] Although there has been widespread distress over mounting imports of steel products and textiles, disruption clauses have not been invoked. Accordingly, we are far from having achieved a balanced basis for bilateral trade.

V

In any case, the problems of any Western country with respect to the U.S.S.R.'s trading practices commonly involve third-country markets as well as those of the country itself. This involvement takes several different forms.

One major problem arises out of the Soviet Union's strong preference for conducting its foreign trade on a balanced bilateral basis. In their most restrictive form, the arrangements that are fashioned to maintain such a balance extend well beyond the barter-type transactions mentioned earlier. In such arrangements, the authorities agree on some target bundle of imports and exports of more or less equal value that they envisage will be bought and sold by the traders of the two nations over a given period, say a year. A pair of clearing accounts is set up, maintained by the respective central banking authorities of the two countries concerned. As individual transactions are arranged, each country pays off its exporters in its home currency, and receives in its home currency the payments due from its importers. The object is to finish each trading period with a zero balance in both national accounts; in that way, neither country is obliged to pay any foreign exchange to the other.

During the period of the agreement, of course, one nation or the other may find itself with a surplus in the clearing account, generated by the fact that its exporters will have sold more than its importers have bought. In that case, the deficit country will exhort its partner to buy more. When that happens, the partner is expected to find ways of discriminating in favor of the deficit country. For example, if one of the partners is a mixed economy with a substantial contingent of state-owned enterprises or heavy governmental purchases, such as Brazil, it is likely to correct an imbalance by directing its enterprises and government offices to buy Soviet products whenever they can, irrespective of price.

Where a bilateral agreement exists and where an imbalance needs to be righted, the temptation of the partners to manipulate

[8] See, for instance, European Parliament, *Report on the State of Relations Between EEC and East European State-Trading Countries and COMECON*, Document 98/78, May 11, 1978.

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an import licensing system is hard to resist. Even if no such agreement exists, the propensity for discrimination will be high wherever the trade has been placed on a barter basis. Not surprisingly, one hears occasional complaints that West European countries tolerate the imports of steel and textiles from Eastern Europe while barring similar imports from Japan and the developing countries.[9]

So far, these practices have not been of earthshaking importance in the trade of West European countries. True, such practices have been inconsistent with various commitments to other Western countries, but they have covered only small quantities of trade. If trade is greatly increased, however, there is a risk that countries will disregard their commitments to nondiscrimination, epitomized in the General Agreement on Tariffs and Trade, the Common Market treaty, and various other treaties, to a degree that could imperil the commitments themselves.

The problems posed by the growth of the Soviet Union's trade involve third-country relationships in other ways. The market-disruption clause to which the U.S.S.R. is prepared to subscribe in bilateral agreements, it should be noted, does not apply to Soviet sales made to third countries. Where such sales displace U.S. exports or the exports of other market economies, it is for the importing country to decide whether to take measures to redress the balance. For instance, if the U.S.S.R. were to sell its Lada automobiles in Canada at extraordinarily low prices, as it might well have to do in order to build up an adequate volume of sales, the third-country problem would surface in an especially acute form.

VI

The security export controls of the United States pose a special set of problems for the growth of East-West trade. These controls have little or nothing to do with the economic problems associated with such a trade, which is the center of the concern I am expressing here. Instead, they are intended to prevent certain selected exports with direct military application from going to the U.S.S.R.[10]

As long as the U.S. Government applies such controls with great care and selectivity, their contribution to U.S. interests cannot seriously be questioned. I have always had considerable reserva-

[9] *Ibid.*

[10] See Jonathan B. Bingham and Victor C. Johnson, "A Rational Approach to Export Controls," *Foreign Affairs*, Spring 1979, pp. 894–920.

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tions, however, about the utility of attempting to apply such controls beyond the occasional exceptional case. The recent shift in emphasis from restricting goods to restricting technology generates the same reservations on my part, and they are widely shared by others. One reason for such reservations is the judgment of many Western experts that the U.S.S.R. has the capability of closing (or at any rate of substantially narrowing) most technological gaps in the military field if it considers them serious. Another is that the imposition of overt controls from the West at times helps the ponderous Soviet bureaucracy in its efforts to highlight any weaknesses in Soviet military capabilities, and helps that bureaucracy generate higher internal priorities for an effective response.

If the application of a general system of security export controls is of dubious value to the United States, as I think is the case, any costs that are incurred in applying such a system seem especially misplaced. One obvious cost is incurred whenever the United States finds itself obliged to put pressure on unwilling allies in order to make some U.S.-initiated embargo effective. Some of that pressure is exerted through COCOM, an international organization in which the United States seeks to generate common lists of products and processes to be embargoed for security reasons. Other U.S. government pressures, even more costly in political terms, are exerted via the U.S.-based multinational enterprises, and target the subsidiaries of such enterprises located in third countries.

The stringency of these controls has varied over time, according to the temperature of relations with the Soviet Union. The number of instances in which the United States feels obliged to put pressure on its allies, however, is a function not only of the degree of stringency of the controls but also of the general level of East-West trade. Accordingly, as such trade increases, the United States is likely to be found exerting its pressures with increasing frequency, thereby adding to the political costs of garnering the questionable benefits of the export control program.

Related to the use of security controls in East-West trade is the question of whether the United States should use its economic leverage with the U.S.S.R., such as it is, to try to achieve political ends. Of course, any basic aspect of the relationship between the United States and the Soviet Union cannot fail to be shaped by some fundamental political calculation; the superpower status of the two countries virtually compels both countries to weigh their relationship in political terms. The question here, however, is whether the United States should attempt to link specific eco-

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nomic concessions to specific political goals. The Jackson-Vanik Amendment of 1974 compels the President to make the linkage in the case of Soviet emigration policies. The approach could easily be extended in principle to issues such as Soviet military support to South Yemen and Ethiopia.

The case to be made on either side of the issue involves the subtle questions of strategy and tactics. On relatively simple grounds, however, case-by-case linkage is not desirable. There are two reasons for my conclusion.

First, as suggested earlier, the situations in which the United States alone can exercise significant leverage are rare; at best, therefore, the gains in such an overt policy can only be small. The reasons for the relative impotence of the United States have already been suggested. In order for the United States to exert effective leverage, the costs to the U.S.S.R. of doing without American grain or American technology, for instance, must be fairly high. Experience suggests that such cases are not common, because the Soviet Union can generally redeploy its own internal capabilities to narrow the gap or to find a near-substitute for American products and processes in other countries.

The second point is that on any issue that relates to the Soviet Union, U.S. negotiators are in an extraordinarily weak position for effectively handling a linkage strategy. Such a strategy demands great flexibility in choosing both when to link and when to delink. The fishbowl in which the executive branch ordinarily conducts its relations with the U.S.S.R. is a grossly unpromising environment in which to pursue such a policy.

Besides, once the American negotiators have chosen—or have been pressed—to link economic benefits to political objectives, they can no longer use their economic power to pursue other needs. If my argument is right, the economic needs may well prove to be compelling, demanding all the economic leverage the United States can muster.

VII

It hardly needs saying that the other advanced industrialized countries of the West have both economic and political interests in common with the United States in their dealings with the Soviets. These other countries so far have resisted the development of a common trade policy toward the Soviet Union based on common political interests. But they have never been strongly tested on whether common *economic* interests might be allowed to shape their trade policy toward the U.S.S.R.

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So far, the failure to develop such cooperation has not been very costly, simply because East-West trade has not been very great. If such trade should very much increase under existing ground rules and existing institutions, however, the cost could prove substantial.

Nevertheless, shifting our trade strategy with the Soviet Union from one based on military security and politics, narrowly construed, to one based on economics will be difficult. The atmosphere is already conditioned by 25 years of debate in COCOM, where the United States has argued its case principally on political or military grounds. Still, the shift in emphasis may be possible. Europe today is more preoccupied with the potentially disruptive economic effects of East-West trade than before, worrying about dumped manufactures and hard competition in shipping from Soviet sources.[11] Moreover, the fact that the European Community under the terms of the Rome Treaty has now assumed the responsibility for East-West trade policy (at least in the formal sense) opens up possibilities for coordination that did not exist earlier.

To achieve the necessary cooperation, the market economies would have to come to share the key judgment suggested earlier: that high volumes of trade between them and the U.S.S.R. could imperil the relations of the market economies with one another unless some improved rules of the game can be devised; and that the uncoordinated approach of the market economies could allow the U.S.S.R. to capture the larger portion of the gains from trade. Not all market economies could be persuaded to consider these propositions seriously; most developing countries, for instance, would draw back from such consideration. But the principal countries to be persuaded in any case would be those in the Organization for Economic Cooperation and Development.

In order to increase the receptivity of OECD countries, the first requirement would be to pursue the subject outside of COCOM, thereby emphasizing the changed basis for the discussion. The second would be to limit the formality of any organizational structure, for fear of straining the political tolerance of the Europeans. OECD consultative procedures, for instance, might be as far as one would want to go at first.

At least as difficult would be the problem of convincing the Soviet Union itself that changes in the trading framework were being dictated by economic considerations, not by cold war tactics.

[11] See, for instance, "Chemicals in the East Explode West," *The Economist*, February 10, 1978, p. 84.

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On that score, the United States and the other Western countries suffer from the initial disadvantage of having allowed the U.S.S.R. for so long to go unchallenged in some of its key contentions as to what constitutes "reciprocity" and fair-trading relationships. So far, the market economies have tacitly tolerated the lopsided idea that any failure on the part of the Russians to trade with them is a neutral nonpolitical act, a manifestation of an inherent right of the U.S.S.R. not to trade unless it sees its interests being served; whereas the unwillingness of the market economies to trade is seen by the Soviets as an aggressive political act, even in circumstances in which such trade might incur a social loss for such economies. The Soviet Union must be persuaded that these long-unchallenged assumptions have always been indefensible, and that if greatly increased volumes of trade are to take place, such assumptions will have to be abandoned.

VIII

The objective, therefore, is to develop a regime among the advanced industrialized countries in which trade and investment with the Soviets can comfortably expand. In the best of circumstances, such a regime will be difficult to create. It will be impossible to create, in my view, if the United States insists on retaining the right to use its trade with the U.S.S.R. as a lever for the attainment of political conditions; in that case, other advanced industrialized countries would want to maintain considerable distance from U.S. policy. Such a regime, therefore, might well require the United States to give up its independent approach to East-West trade, including the use of political conditions to determine whether unconditional most-favored-nation treatment and Export-Import Bank loans should be granted to the Soviet Union.

What would such a regime include?

One basic principle would be for the Western states to claim the right to apply the same presumption that the U.S.S.R. applies, namely, that no trade should be expected to take place unless it contributes a net economic benefit to the market economies as a group. Agreement on the principle is more important, in my opinion, than its rigorous application. Indeed, any effort to judge many individual transactions by that criterion could rapidly be turned into a bureaucratic nightmare. But the principle would be important for two purposes: first, to remind both sides of the fundamental point that both must be in a position to benefit in a social sense if trade is to continue and to expand; second, to snag the occasional large isolated transaction which, by its terms, seems to threaten the aggregate economic interests of the West.

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A second principle would be to multilateralize, as far as possible, the participation of the advanced industrialized countries in trade with the Soviet Union. Under this heading, bilateral clearing accounts and government-supported barter would be curbed; provisions for the sharing of raw materials sold by the U.S.S.R. would be set forth, to be applied in periods of acute scarcity; and quantitative goals for aggregate Soviet imports from the cooperating market economies would be developed, goals that might be reached by a process of negotiation with the Soviet Union.[12]

Another element in such an approach would be the development of joint policies among the market economies on various technical issues that relate to trade with the Soviet Union, such as the terms of credit to be extended to Soviet buyers. This is an old chestnut, on which cooperation has not been notably successful in the past; on the other hand, agreements in this field have always been pursued in a vacuum, outside of any larger economic framework for trade with the Soviets. It may be that, as one plank in a more coordinated approach, such agreements would have a greater chance for success.

Finally, there is the possibility of developing joint economic demands that would involve the intangible aspects of trade and investment. For example, one could conceive of the Soviets being asked to improve the rights of visitation of Western businessmen to a number of branches of Soviet industry in which such businessmen had a technological interest. Under a regime of this sort, it is conceivable that the privilege of Soviet representatives to visit, for instance, the steel plants of the West would be balanced by the right of Western businessmen and technicians to visit designated groups of plants in the U.S.S.R. Steps such as these would be needed to right the lopsided character of existing arrangements.

IX

These possibilities are suggested only illustratively. The important underlying point is to recognize that the present basis for trade and investment is lopsided; that if East-West trade greatly increases, a form of Gresham's law may push the market economies further from their own preferred basis for trading with one another; and that any solution to that problem is likely to require greater cooperation among such economies.

Desirable as this recognition may be, one must soberly entertain

[12] Some additional interesting suggestions appear in E.A. Hewett, "Most Favored-Nation Treatment in Trade Under Central Planning," *supra*, footnote 3.

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the possibility that it will not come about. The individual states of Western Europe and Japan are already tied up in so many complex deals with the U.S.S.R.—the United States with grains, Italy with oil, Germany with gas, and so on—that the world may well have reached the point at which a cooperative effort is beyond the collective capabilities of the advanced industrial nations. As a result, we may find ourselves impotent to right the imbalance between the West and the U.S.S.R., and unable to mitigate the threat to our present international economic systems that appears to be associated with increasing economic relations with the Soviets under the existing rules.

Even in that case, however, a heightened sensitivity to the problems of such trade will serve some purpose. It will serve to remind us that, under the present rules of the game and under existing institutions, any expansion of trade with the Soviet Union may entail some significant costs, and that the benefits to be derived ought to be clearly superior to those costs.

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Marion Dönhoff

BONN AND WASHINGTON: THE STRAINED RELATIONSHIP

This year the Federal Republic of Germany is 30 years old; so are its close friendship and multiple ties with the United States. Those ties started with the Marshall Plan and the Berlin airlift and they have hardened through the many storms the two countries have weathered together over Berlin. Never before has Germany been tied for so long, so closely, and in so many ways to another nation.

No wonder that occasional irritations should occur in such a relationship. For a long time the Germans were the ones who had continual doubts about the steadfastness of their American friends, and got on their nerves by repeatedly asking, "Will you really stand by us?" Today the situation is rather the other way around, with quite a few Americans worried that the Germans might make secret deals with the Russians.

Part of the mutual uneasiness that occasionally crops up stems from the fact that each country's idea of the other no longer corresponds to reality. There is a certain time lag on both sides. Americans feel—often probably quite unconsciously—that we Germans should still act like well-behaved pupils with only one aim in mind: to be in tune with Washington. As long as we were focusing exclusively on the West, this was indeed the most important priority of Bonn's foreign policy. Since, in the early 1970s, in the course of our Ostpolitik we signed the agreements with Poland and the Soviet Union and thereby once again assumed our traditional place in the center of Europe, Bonn must to a certain extent also take the reactions of the East into account.

Our own ideas of the United States do not correspond to reality either. They go back to a time when, to Europeans, the United States was a powerful, self-assured nation that enjoyed boundless confidence. We know, of course, that the shocks of Vietnam and Watergate have weakened U.S. leadership and have caused uncertainty in the minds of the people. We know that self-assurance has given way to self-doubt, but nobody is quite willing to believe that this has become a permanent condition. Thus, neither side has fully realized yet that the Americans are no longer as strong

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as they were in the first decades after the war nor are we Germans as weak, which is why each is occasionally disappointed in the other.

This time lag with respect to reality accounts for certain political tensions that have arisen more frequently of late. They are related to our above-mentioned Ostpolitik. Precisely because Bonn can no longer afford to focus exclusively on the West and simply ignore its neighbors in the East and their reactions, the Federal Republic attaches much greater importance to détente than do other members of the Atlantic Alliance. As far as Bonn is concerned, a special kind of détente exists.

Inasmuch as the American détente toward the East has deteriorated—largely because of the disproportionate Soviet military buildup and Soviet expansion in Africa that have gravely affected American public opinion—the Soviet Union must try to keep détente alive elsewhere. Besides, the Soviet leaders feel that they have not gained all that much from détente with the United States: neither their hopes for technology nor their illusions about credits have been fulfilled. Both ended with the Jackson-Vanik Amendment linking most-favored-nation trade status for the Soviet Union to emigration.

Therefore, Moscow now looks to Europe and particularly to the Federal Republic of Germany, which has the highest stake in the question: "Détente—yes or no?" America is 4,000 miles away from the European periphery of the Soviet empire; Germany is split right down the middle by the line that divides West from East. Moreover, even after the Four-Power Agreement of 1972, Berlin remains a lever in the hands of the Soviets, which to some extent they are still able to pull.

II

Anyone traveling from the Federal Republic to Berlin must pass through the German Democratic Republic (GDR), i.e., through territory of the Soviet Union's most important protégé. For years, politicians and members of parliament traveling to Berlin had to go by air because travel by train or car posed too great a risk of their being stopped or even arrested. Today the approaches to Berlin are completely safe. This also means that the support and maintenance of the former Reich capital are guaranteed.

The Federal Republic has gained still other advantages in the course of détente, which was, after all, only made possible by the agreements with Poland and the Soviet Union. In 1978, for

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example, eight million West Germans and West Berliners were able to travel to East Berlin and to the GDR, and almost two million senior and other citizens traveled from the East into the Federal Republic. Families who for years had been unable to get together can now meet and telephone each other without difficulty. Furthermore, over the past six years, 50,000 Germans have been allowed to leave the GDR and join their relatives in the Federal Republic. Finally, 1978 was the first year since it was built in 1961 that nobody was killed at the Berlin Wall.

In other words, the danger of conflict has been reduced, and the GDR's greater willingness to cooperate in the past 12 months may well be attributed to Moscow's influence. Small wonder that Bonn is anxious not to jeopardize this state of affairs. Those human relations would be the first victim of a deterioration of the political climate.

The Germans have certainly profited from détente more than other nations. By the same token, they have also become more sensitive to pressure. Does this mean that the Federal Republic may have become open to blackmail? Could Bonn, in order not to lose all of those privileges again, bow to Soviet wishes and even be misused as a representative of Soviet interests within the alliance? To pose such questions presumes a naïveté which simply cannot be attributed to a government that has had more experience with the communists than any of its allies in the West. No one has a clearer knowledge of communism than a people one part of whom has had to live under Marxist rule for over 30 years. Moreover, one thing is certain beyond any doubt: the close relationship with the United States and the unconditional membership in the Atlantic Alliance will continue to have top priority in Bonn's foreign policy, regardless of which party is in office. For the public as well, the need for security is the primary concern.

Under such circumstances, it is simply absurd that terms like "self-Finlandization" or "Rapallo" should suddenly crop up in connection with the German Federal Republic. The agreement that the Germans and the Soviets signed at Rapallo in 1922 came into being at a period which does not bear the remotest resemblance to the present situation. At the time of Rapallo, both countries were the pariahs of Europe: impoverished, discredited, impotent. They therefore decided to resume the diplomatic relations that had been severed by World War I and to cancel their mutual claims for war damages and reparations. Today both countries are strong, though in totally different ways: the Soviet Union is militarily strong and a global superpower, the Federal

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Republic is strong economically but otherwise merely a regional power. In their views and habits, their moral principles and their cultural traditions, the citizens of the Federal Republic are so naturally and completely integrated into the West that any suspicion that they might disengage themselves and turn to the East is simply inconceivable.

Those who nevertheless do not trust the judgment and reliability of the leadership in Bonn should take comfort from the knowledge that Moscow is in no position to make sweeping new offers, because it must take the East Europeans into consideration. For instance, the offer to reunite Germany in exchange for neutralization, which some critics may have in mind, is quite unthinkable with respect to the German Democratic Republic. The GDR, after all, is Moscow's most important economic COMECON partner and must not be endangered under any condition. Any basic change in its political status may shake the government in East Berlin. And this, again, would doubtless cause a chain reaction of disturbances among the East European nations.

Any fear that Moscow might, as some people believe, "play the German card" is simply absurd. First of all, Moscow is unable to play it, and in any case, it would not score with the Federal Republic. What is true, as far as Bonn is concerned, is that its relations with the Soviet Union clearly rank before those with China. Chancellor Schmidt has made this quite plain in a statement prompted by the violent attacks against the Soviet Union that the Chinese Deputy Prime Minister Deng Xiaoping launched in the United States. Playing other people's cards is, in any case, a rather dubious undertaking. The German General Staff found that out in World War I, when Ludendorff had the bright idea of "playing the Russian card" and smuggling Lenin into Russia.

The widely circulating rumors and conjectures about a flirtation between Bonn and the East have been fabricated largely inside the Federal Republic itself. During the first five months of this year, three regional elections, the election of the President of the Federal Republic, and the elections to the European Parliament have given the opposition ample opportunity for all kinds of insinuations. With the help of such sounding boards, every event has been blown out of proportion—the speeches of German Social Democratic Party (SPD) Chairman Herbert Wehner saying that the U.S.S.R.'s military aims are wholly defensive and warning of a Washington-Bonn axis, the trips to Moscow of SPD Secretary Egon Bahr, the talks of SPD security adviser Alfons Pawelczyk with Valentin Falin, the former Soviet Ambassador to Bonn.

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Since no further elections are in the offing, it may be assumed that these rumors will cease.

What will not cease is the somewhat critical amazement with which the United States and the Federal Republic of Germany are eyeing one another. Each is fully aware of its criticism toward the other. Therefore, only certain irritations felt on this side of the Atlantic are worth mentioning here.

III

For decades we Europeans have been extremely spoiled because there were so many European experts on the other side of the Atlantic who had a decisive influence in U.S. policymaking, such as John J. McCloy, Dean Acheson, Henry Kissinger, George F. Kennan, and J. William Fulbright. None of these men is active in policy today. Their experience and their intimate knowledge of the old continent are missing. Hence, it is inevitable that the Europeans who have a better knowledge of the mentality and complexity of the East European countries than most Americans are horror-struck on occasion: for example, when Treasury Secretary W. Michael Blumenthal last December was charged by President Carter with expressing official respect to President Ceausescu in Bucharest for his courageous defiance of Moscow.

American actions in the Middle East also raise serious questions in the minds of many informed West Germans. After the fall of the Shah of Iran, Defense Secretary Harold Brown traveled to Saudi Arabia to offer the government in Riyadh American military assistance—precisely at a moment when the Saudis were trying to play down their close relationship with Washington and when out of fear they tried to woo the radical Arab leaders. This came out very clearly at the Baghdad conference in March of this year when the Saudis decided, along with the other Arab states, to sever their diplomatic ties with Cairo as a way of protesting the peace treaty with Israel. President Sadat has gone so far as to accuse the Saudis of having "paid off" some of the other governments to break off relations with Egypt.

Most people in Germany, however, praise President Carter for his courage, and claim that no other statesman would have dared to put his political reputation on the line in order to bring Israel and Egypt together. This kind of spontaneity on his part may be the other side of the coin for which he is often criticized in this country, namely that he lacks a consistent concept of foreign policy. Those who now argue that the situation in the Middle

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East has become more complicated since the peace treaty—and much more dangerous—did not have this insight when the treaty was concluded. On the whole, however, it must be said that in the Federal Republic public interest in and general knowledge of the Middle East is rather superficial.

This is much less the case so far as Africa is concerned because South Africa is such a controversial topic and apartheid lends itself to polarized discussion—all the more so since German industry has heavily invested in that country. So far as Rhodesia and Namibia (where 30,000 Germans still live) are concerned, there is a growing opposition to Bonn's policy, which tends to fall in line with Washington's.

The argument of that opposition is that the official policy misconstrues basic currents in black Africa; that it has been misguided because of statements of the radical leaders at conferences of the Organization of African Unity; that moderate leaders, like Kenneth Kaunda of Zambia, are far more concerned about Soviet intervention than they are about the West. Even a figure like Angolan President Agostinho Neto is struggling to make ties with the West that will provide a counterweight to the Soviets and Cubans.

If such is indeed the case—and several trips during the past few years have convinced me that it is—then it must be said that a policy solely directed at obliging the radical leaders cannot be one designed to produce optimal results. For example, it remains inconceivable what anyone could have expected from the demands that have been made over the past two years for an arrangement in Rhodesia which all concerned vehemently opposed and which no one is prepared to accept, i.e., an all-party government, incorporating every political tendency from Ian Smith and the white minority on the Right, to the Popular Front on the Left. That arrangement would institutionalize the very civil war between black rivals which it is ostensibly designed to avoid. That the internal solution was never given serious thought only proves that, for the policymakers, the question is more one of ideological agreement than of pragmatic transition to a multiracial society. This is, however, a source of internal disagreement in both countries, not a problem burdening the Bonn-Washington relationship per se.

Very often irritations simply grow out of differences in style. For Europeans, the sometimes rapid change of emphatic official statements is hard to understand. When President Carter spent New Year's Eve 1977 with the Shah and Shahbanou, he said in

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his toast at the state dinner that he considered it a good omen to start 1978 with those in whom he put such great trust and with whom he shared the responsibility for the present and the future:

> Iran, because of the great leadership of the Shah, is an island of stability in one of the more troubled areas of the world. This is a great tribute to you, Your Majesty, and to your leadership, and to the respect and the admiration and love which your people give to you. . . .We have no other nation on earth who is closer to us in planning for our mutual military security. We have no other nation, with whom we have closer consultation on regional problems that concern us both. And there is no leader with whom I have a deeper sense of personal gratitude and personal friendship.

Yet in December 1978, shortly before the fall of the Shah, who was already in dire straits, President Carter referred to "the difference in human rights values . . . . There have been abuses. . . . under the Shah's government that would not be acceptable in our own country." One naturally wonders if the President had not in fact known this a few months earlier.

Such a contradictory approach to human rights stood right at the top of the list of irritations between the Federal Republic and the new Administration in Washington in its early months. There is no denying that a foreign policy which is not firmly based on a system of moral values of necessity deteriorates into opportunism. As such, the decision to put greater emphasis on human rights so as to make plain what America stands for surely would have met with general approval. But criticism arose as to the method by which the policy was implemented.

Since neither Chile nor Brazil, nor Idi Amin nor the Shah, was condemned during the first months for violations of human rights, and criticism was directed exclusively against the Soviet Union, the crusade for human rights degenerated into a weapon in the fight against communism and thereby lost its credibility. More than that, the employment of this weapon was extremely vexing because it could only achieve negative results.

It was a development that anybody who knows the East would have anticipated: a government as suspicious as the Russian was bound to look upon the interplay between Washington and the dissidents—which had become particularly conspicuous through the correspondence between President Carter and Andrei Sakharov—as a conspiracy between the enemy without and the opposition within. Furthermore, the Kremlin was furious that the President's suggestions and reproaches were no longer directed to Moscow through customary channels via Ambassador Dobrynin, but were suddenly announced at a press conference. The Russians,

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after all, have always had a horror of open diplomacy. Hence, Moscow could only draw one conclusion and take immediate harsh action against the dissidents. During the first two months of the Carter Administration, the leaders of the human rights committees that had formed in Moscow, Leningrad and Odessa after the Helsinki Conference were arrested. Of these, only Aleksandr Ginzburg has been released, in May of this year, and only after Washington returned to secret negotiations.

Europeans who have become skeptical are of the opinion that it is pointless to mix foreign policy with moral objectives. Woodrow Wilson and John Foster Dulles did not make the world any more moral, but led it into all kinds of conflicts and deadends. The militant anti-communism that is bred at home by such statements brings the wrong spokesmen to the fore, and unleashes emotions which under certain circumstances may no longer permit a rational policy.

We remember with some apprehension the days of John Foster Dulles, for whom morality was the most important issue: help the good, punish the evil. He once refused to shake hands with Chou En-lai because he was a communist—hence, a villain. We recall his successor, Dean Rusk, who insisted that, true to Nationalist Chinese tradition, Peking should be named Peiping. To him, China was Taiwan, the island of 15 million inhabitants, while mainland China with its 800 million Chinese was nonexistent.

Henry Kissinger was much better understood, since he started from the premise that peace is not a natural order and therefore must be carefully constructed. He urged people not to stress differences of opinion but to focus on mutual interests and refrain from setting standards by punishment and beneficial acts, so there would be an end at last to the eternal hot and cold treatment of illusion and disappointment.

To critics who blamed him for having done too little in seeing to it that human rights in the Soviet Union were observed, he replied: "Painful experience should have taught us that we must not overestimate our capacity for working social and political changes in other countries." Such insight runs parallel to the experience of Europeans, whereas organizations like the Committee on the Present Danger, which has since come into existence and which stirs up public anxiety about Soviet rearmament, conjure up memories of the cold war.

IV

Other differences between Bonn and Washington have centered

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on specific issues of economic and monetary policy, approaches to nuclear energy, and NATO weapons systems. The first of these came to be symbolized, during 1978, by the new European Monetary System (EMS), in which Helmut Schmidt is a great believer. It made the Americans worry that the Federal Republic, and the Europeans in general, might become too independent altogether. The old Europe syndrome of the Gaullist era—"Europe as a third force between the superpowers"—is raising its head once again. This suspicion had its origins not only in the new European currency system, but also in certain discussions over new weapons systems.

As far as the currency system is concerned, people in Bonn, in the fall of 1977 and throughout 1978, were under the impression that U.S. Treasury Secretary Blumenthal was trying on purpose to talk down the dollar. He said, for example, that a "de facto devaluation is necessary to redress trade imbalances and fuel the global recovery." People in Bonn became suspicious and interpreted this as: "unless the Germans do what they are supposed to do, namely turn themselves into the engine that pulls the world economy out of the recession by inflating a bit, we'll just do it another way."

It was Blumenthal's theory at the time that if the value of the dollar declined, American exports would rise and the balance of payments would even itself out automatically. But this cannot be achieved through monetary measures alone. Blumenthal has since recognized his mistake, but the Europeans have been left with the uneasy feeling that a few speeches by the Secretary of the Treasury might jeopardize the soundness of the world economy, which depends on the dollar.

This feeling certainly did not provide the motive for the two European leaders, Helmut Schmidt and French President Valéry Giscard d'Estaing, to work out a European currency system, but the experience probably lodged somewhere in the back of their minds. They were actually motivated by a desire to minimize the influence of currency fluctuations on the rate of growth in the European economies.

In the beginning, the Carter Administration was afraid that the European Currency Unit, or ECU (which actually only shows up in interbank transactions), might turn into a new European substitute currency that would push the dollar aside. Actually, it has had a positive effect on the dollar, whose value now is no longer affected by speculations or by the fact that European issuing banks find themselves forced into dollar purchases and sales which now are controlled by America's own currency mea-

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sures. Washington probably has realized that the ECU is not a magic wand that can change Europe into an integrated powerful rival overnight. Europe lacks the political will to do this, and integration can never be achieved by technical measures alone.

Finally, everybody was surprised, the Europeans included, at how little the new currency system changed existing currency relationships. There was practically no noticeable movement; at most it became evident that the deutschmark was not quite as hard as had always been assumed.

V

Another serious controversy, which erupted in 1977, concerned nuclear energy, and specifically dealt with the conflict between President Carter's nonproliferation policy and a proposed sale of a reprocessing plant by the Federal Republic to Brazil. A calm has settled on this matter, not because the conflict has been resolved, but rather because the International Nuclear Fuel Cycle Evaluation (INFCE), the research group instituted on President Carter's initiative to determine the feasibility of international reprocessing centers, has not yet finished its work. It is hardly to be expected, though, that the basic positions will change significantly, for this is not a technical controversy, but a matter of differences over a philosophical approach to nuclear energy.

However, the situation in the Federal Republic has taken a fundamental turn, and this could modify the need to resolve the conflict immediately. Antinuclear feeling has become so vehement that Bonn will probably have to give up its plans to construct a massive reprocessing and waste disposal facility. The government parties themselves are split on this matter, and their local organizations across the country are succumbing so strongly to the pressure of citizen's initiatives that the desire for total renunciation of nuclear energy is heard with increasing frequency. Finally, the provincial or Länder governments, within whose competency the authorization for new reactors lies, have been made so insecure that they are tending to take no position at all.

Chancellor Schmidt, who has stated several times that no industrial country will be able to manage without nuclear energy during the next decades, either in respect to technological development, jobs or the Third World, faces an unusually difficult test of his strength. The trade unions have supported his position up to now, but the question stands whether they will really fight for the issue following the incident at Three Mile Island.

The situation relating to the controversy between Bonn and Washington could lead to two very different sets of consequences:

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it is conceivable that the whole reactor industry, in which enormous sums have been invested and which has reached a high degree of development, will have to be closed down because no new reactor construction is approved; or, it is also conceivable that, if it does turn out that no more production for the home market takes place, the export of reactors will be pushed with all possible speed in order to keep the industry running, to hold onto the jobs involved, and, in the event that the public mood calms again, to revive activity in the Federal Republic.

VI

Obviously relations between the United States and the Federal Republic have been strained more acutely and more lastingly over the problems of new weapons systems, although a real controversy between the United States and the Federal Republic has erupted only over the neutron bomb. As far as medium-range missiles are concerned, the debate at present is still taking place within the governments of the two nations, rather than between them.

The discussion of neutron weapons did indeed cause certain friction, leaving wounds that have not yet quite healed. As far as the Federal Republic was concerned, the issue presented itself as follows. For quite some time NATO had wanted a new nuclear weapon which, unlike the old tactical weapons, would not totally destroy the area to be defended, that is, a device causing less fallout, more concentrated radiation, and reduced blast effect. This weapon—the neutron bomb—was developed during the 1960s in the United States but never went into production and thus was forgotten by the public. But in 1977 *The Washington Post* discovered that expenses for such a weapon had been hidden away in the energy budget, and soon the news made waves on this side of the Atlantic. In the German Democratic Republic and in the Soviet Union, propaganda at once ran full blast about this "super-destructive capitalist instrument which kills people and spares objects—meaning property."

Under the circumstances, it was understandable that President Carter did not want to decide to go into production without a clear statement of purpose from the Europeans. The Europeans, however, wanted the bomb, but did not want to say so publicly. Both sides, therefore, finally agreed on the following three-stage plan:

First stage: the President announces that development of the bomb has been completed, but that he would like to talk to the Soviet Union before going into production.

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Second stage: in the event that the Soviets are unwilling to come up with a counterproposal in return for an offer to drop production of the bomb, he tells the NATO allies that the negotiations have failed.

Third stage: the President announces that he has decided to go into production and that the neutron bomb will be stationed in Germany and at least one additional European country. The Europeans take note of this decision.

This was the agreement. But in the end the President did not stick to it, announcing instead that the bomb would not be produced, whereupon West German Foreign Minister Genscher flew to Washington. Result: the President announced that production was not stopped, but simply postponed.

On reflection, the course of events leads one to admit that here the strain in U.S.-European relations was caused less by President Carter than by the Europeans, and particularly by Bonn. Bonn obviously set great store by the bomb, or Genscher would not have flown to Washington. But the Federal Republic wanted to be pushed into accepting it rather than openly come out in its favor.

At present, a wide-ranging discussion about medium-range missiles is underway. It has been caused by the fact that the Russians had 750 medium-range rockets of the SS-4 and SS-5 types stationed in Europe, one-third of which were transferred to the Far East over the past few years. These outdated models are now being replaced by modern SS-20s, which are far more precise and effective, in addition to being mobile. Each launching system consists of three rockets with three warheads each. This raises the question as to whether or not the United States, too, should station medium-range missiles in Europe. Chancellor Schmidt's answer was that, first, this required an allied agreement, and second, that the Federal Republic was not willing to be the only country to have medium-range missiles stationed on its territory.

Two points of view have emerged during the Federal Republic's public debate. Almost unanimously in favor are the NATO officers who argue that the jump from tactical atomic weapons to intercontinental missiles is so enormous that it will cause a gap in the ladder of deterrence. Certain politicians are also in favor, but at the same time see the weakness of the argument, which lies in the fact that stationing medium-range missiles would provide the Soviets with valuable targets for their nuclear weapons; these politicians base their standpoint on political implications. They say we must make the Soviets realize that we simply cannot accept an obvious nuclear buildup—the SS-20 can easily be converted

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into an intercontinental missile—since this would cause an imbalance of power that might tempt people to apply political pressure. These advocates place great importance on demonstrating willingness to defend the continent, which could be done with a few medium-range missiles. Hence, they are not in favor of seeking numerical parity in weapons systems.

Opposed are those in the Federal Republic who believe that stationing the missiles would create more political disadvantages than military gains. They feel that a new kind of threat arises for the Soviet Union if it can be fired upon from the European continent. For them, negotiations in Moscow have absolute priority; only if these should fail to have any tangible results would they be willing to reconsider the issue. Other opponents believe that there should be a parallel effort of production and negotiation. But for the moment this obviously remains an internal discussion within the Federal Republic, in which both sides allow their respective partners in the United States to supply them with ammunition for their arguments.

VII

Both 1977 and 1978 were sometimes quite stormy. There were many reproaches—spoken and unspoken—on both sides. But the certainty of each country depending on the other and of standing for the same goals and convictions was always stronger than the irritations.

If 1979 has up to now gone by with substantially more harmony than either of the two preceding years, we should not let ourselves be deceived. The coming 16 months, which include elections in both countries, will prove extraordinarily difficult. The foundations for strife have already been laid: the Federal Republic must and will further cultivate its ties with the East—very carefully, but with great determination—and will do everything to maintain relaxed tensions with Moscow. However, the close fight in America over the ratification of the SALT agreement will inevitably give German opponents of Ostpolitik both the scope and a major opportunity steadily to incite mistrust of the Soviet Union and to cast suspicion on all who want to live in peace with it.

As a citizen of the Federal Republic, one can only hope that Washington will find understanding for the Federal Republic's situation, and that Americans will not mistake the balancing act we have to perform for opportunism but rather for what it is—the policy of a land that happens to be located in the center of a divided Europe.

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François de Rose

THE FUTURE OF SALT AND WESTERN SECURITY IN EUROPE

The problem of including medium-range nuclear missiles in an eventual SALT III negotiation is bound to become, in the coming months and probably years, one of the basic issues between the Western nations and the Soviet Union on the one hand, and within the Atlantic Alliance on the other, as well as a problem of internal policy for a good many European nations.

This, in itself, is already a new phenomenon. Up till recently, questions related to doctrine of use or the deployment of nuclear weapons in Europe have not been subjects of public debate and, on the whole, were decided upon by the United States. Only France, at the beginning of the 1960s, made objections to the concept of flexible response (although not proposing another solution). But since she left the integrated military organization in 1966, it looks as if the most perfect harmony of views has prevailed in the Defense Planning Committee or the Nuclear Planning Group of the Alliance.

As for the Strategic Arms Limitation Talks, although they concern one leg of the triad on which European security is founded (conventional forces, theater nuclear forces, and strategic forces) and the most important component of deterrence, the consultations in NATO, from 1969 right to the present, have been more in the nature of a sharing of information by the U.S. representatives than of a discussion among equally interested partners. The Europeans have in the main left it to Washington to take care of the interests of the West as long as forward-based systems were excluded—that is, the aircraft stationed in Western Europe (land-based or on carriers) but capable, in terms of range, of reaching the territory of the Soviet Union, and above all the strategic nuclear systems of France and the United Kingdom.

In the last two or three years, however, the issue has moved into the so-called gray area, of possible additional weapons deployed within the territory of the West European members of NATO but

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capable of reaching the territory of the Soviet Union, whether in the form of medium-range land-based ballistic missiles or in the form of cruise missiles launched from the ground or from aircraft. These systems are in fact partially embraced within the present SALT II negotiations, specifically in connection with limitations on the deployment of cruise missiles during the life of the protocol which is part of the package. To this writer's knowledge there has not been one official comment in Europe over the provision limiting the range of land-based cruise missiles to 600 kilometers. Yet should that provision be extended by SALT III over the next decade, when it will be more and more difficult for piloted aircraft to penetrate air defenses, it would further reduce the capacity of European-based weapons to strike at the rear of enemy forces.

So much for the past. But with the possible regulation of gray area weapons, it seems that the decisions to be made should not be left only and entirely to rest on American authorities—even if the first official debates bearing on future production and deployment programs are likely to take place when the U.S. Senate engages in the debate over ratification of SALT II in the last half of 1979 and perhaps into 1980.

But what is beyond doubt is that the shaping of a position will be difficult for European governments in view of the many parameters they will have to take into account. So the aim of this article is to say, from the point of view of a European, what are the ideas that appear to be of paramount importance in the framing of a policy. That policy concerns not only the security of Europe but rather the security *in* Europe of all the members of the Alliance; the problem is of vital importance to all of them irrespective of their positions on the eastern or western shores of the Atlantic.

No doubt some will be surprised to see a Frenchman voicing an opinion on such matters, since his government has already made known that in no case will it be a party to any kind of discussion on the gray area. To whatever extent this abstention proceeds from an analysis of the disadvantages of such discussion, what should be evident is that France's refusal to take part is *not* dictated by a refusal of the deployment of such weapons in Europe: France is indeed the only country to have already on its territory land-based missiles capable of reaching Soviet territory. It should be noted in this instance that she does not fare any worse for that matter, nor does she feel handicapped in her relations with the Soviet Union.

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II

Several factors are contributing to put the problem of Western security in Europe during the next decade in a condition that will be new when compared to the one we are familiar with. But the basic factor is the appearance of the new medium-range Soviet missile, the SS-20, along with the Backfire bomber. Some may argue that there is no great novelty since, for almost 20 years, Soviet SS-4 and SS-5 missiles have kept Europe under the threat of their megaton warheads. The difference lies in the following facts. The old missiles, carrying one reentry vehicle, were of a doubtful accuracy and therefore unfit for antiforce attacks against the military targets whose destruction would be necessary to disarm the Atlantic Alliance in Europe; their use would have been difficult to distinguish from anti-city aggression. In other words their use, in response to NATO's own employment of tactical nuclear weapons, would have implied a jump in escalation with the obvious risk of retaliation at the same level. The situation will be different with the new mobile SS-20 missiles, less vulnerable and each equipped with three reentry vehicles deemed to enjoy high accuracy which could therefore present most military targets between the Elbe and the Atlantic Ocean with a grave threat of possible destruction.[1]

Whereas up to this point Soviet superiority in conventional forces has been counterbalanced by American superiority in theater nuclear weapons, this will no longer be true in the case of those nuclear arms best suited for antiforce strikes in the full depth of the European theater. In other words, while there was till now a "balance of imbalances" which more or less matched one another, the years to come will be marked by Soviet superiority in both fields. This has to be pondered over in relation to NATO defense doctrine, which calls for the use of theater nuclear weapons in first-strike missions should the developments of conventional fighting make it necessary. Such a doctrine would no longer be valid or applicable if the enemy can take out, from the onset, Western nuclear weaponry.

Moreover, this new situation is parallel to that developing in

[1] To be sure, in a densely populated area such as Western Europe, Soviet use of high-yield weapons would cause collateral damage that could not be held negligible. In that event, while the "surgical operation" sometimes referred to might well cripple the patient, it could also expose the surgeon himself to dangerous consequences—in effect raising the operation at once to the strategic level and inviting retaliation by NATO strategic forces. On the other hand, no one should doubt the ability of the Soviet Union to equip its missiles with warheads of reduced kilotonnage that would still be adequate to destroy military targets.

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the balance of intercontinental ballistic missile (ICBM) forces, where the SS-17, SS-18 and SS-19 will give Moscow the numerical advantage in the relationship between reentry vehicles and targets to be destroyed. These changes increase the importance of a first-strike antiforce capacity, reduce the validity of the once-accepted doctrine of Mutually Assured Destruction (MAD), and generally diminish the role of second-strike capacity in relation to strategic deterrence.

This is not perceived necessarily in Europe as an indication of a danger of war but as the sign of our continent's growing vulnerability, while the vulnerability of Soviet armaments threatening us is diminishing. The improvement of Soviet first-strike capability in land-based missiles could give them parity and maybe superiority over the United States in the ability to control escalation. This would be an advantage more important than second-strike resources in crisis management, when political victory or defeat would be decided. Which might mean primarily the fate of Europe.

And this is taking place in a global strategic environment which is characterized by the gravest doubts about the validity, from now on, of the traditional formula of sea powers to win wars against continental powers—"Trade space for time." This formula was based on three components: control of the sources of raw materials and energy; command of the seas which allowed for the transport of such resources; and time to obtain numerical superiority of war materials and equipment. The changes which have taken place in world geostrategy have nullified most of these former trump cards. Africa, 40 years ago an Anglo-Franco-Belgo-Portuguese continent, is now independent with Russia present at some key points. The Near East and its oil fields, up till recently a zone of exclusive Western influence, is in the throes of the changes we witness. The Indian Ocean, once an Anglo-Franco-Dutch lake, now counts more Soviet strongholds and bases than we do. Thus, even assuming that the navies of the Atlantic Alliance would eventually gain the upper hand over that of Admiral Gorchkov, their command of the seas would no longer play the same role if Europe were conquered. For its liberation would not depend on the launching of thousands of Liberty ships nor on the production of American factories. It could only take place at the cost of utter destruction of the Soviet Union, which implies that of the United States and deprives the conduct of war of any rationality. And this also would weigh in the management of any crisis.

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III

From what has been said it follows that the relation of forces, at any time and at different levels, is more and more important for the preservation of stability in East-West relations and of Western vital interests. And this applies to the medium-range nuclear weapons with which we are concerned here and which may be included in SALT III.

Two questions arise in this connection. The first is whether it is necessary to deploy weapons in Western Europe that can reach the Soviet Union. The second is whether there is a case for including missiles of such range (whether of friend or foe) in the next phase of the negotiation on the limitation of strategic weapons.

The first question was raised publicly by West German Chancellor Helmut Schmidt in his speech at the International Institute for Strategic Studies in London on October 27, 1977. Taking stock of the balance that was in the process of being established at the intercontinental strategic level and the lack of balance in Europe, he asked whether it was not necessary to do something to restore a more equal situation on the old continent.

One knows that NATO's doctrine provides that the destruction of military targets located in the Soviet Union and its satellites, as required for the defense of Europe, would be performed both by American systems stationed on the old continent and, upon request of the Supreme Allied Commander Europe (SACEUR), by missiles from the U.S. central system. Now that the Soviet Union is about to enjoy the advantage of a first-strike capacity in Europe, the defense of that continent will be dependent to a much greater degree upon support by U.S. strategic weapons, specifically submarine-launched ballistic missiles (SLBMs). But since SLBMs may not be capable of all missions related to SACEUR's requirements and since they may have to be earmarked for more strategic missions as the result of the ICBMs' growing vulnerability, the likelihood is that the fulfillment of SACEUR's missions will be entrusted to air-launched cruise missiles which are vulnerable before takeoff and need hours to reach their targets.

So the rationale for the deployment in Europe of land-based medium-range systems—cruise missiles, Pershing II, and/or medium-range ballistic missiles (MRBMs)—is that (a) because of their mobility they could not be knocked out by their counterparts and therefore would reduce the first-strike capacity of the aggressor, and (b) they would threaten counter-strikes capable of high

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antiforce damage inside Soviet territory and that of its allies. In simple terms it means reducing the advantages to be expected from the qualitative improvements of Soviet weaponry. And it would greatly consolidate the linkage between theater nuclear forces and the U.S. central systems. The danger of decoupling between the two is the gravest threat to the credibility of deterrence. Such deployments as envisaged here, maintaining or restoring the capacity to "de-sanctuarize" Soviet territory from Europe (and in the context of the defense of Europe), would establish in the most visible manner the complementarity and continuity of theater and strategic forces.

If, on the contrary, the European theater were to be denied (through SALT or otherwise) the deployment of such medium-range arms and left entirely dependent upon U.S. central systems in that range of defense means, there could be no doubt that such a change would be taken as a definite worsening of the danger of decoupling—that is, of reducing the likelihood and prospect of a U.S. strategic response, if needed, to aggression in Europe.

In that respect the situation created by the protocol of SALT II prohibiting, albeit temporarily, the deployment of ground- or sea-launched cruise missiles with a range exceeding 600 kilometers might create a dangerous precedent. For the first time, the United States has made a commitment bearing on theater weapons while no parallel measure had to be agreed to by the Soviet Union. It would be surprising if, in the next phase of the talks, Russian negotiators did not claim that those restrictions were part of a general deal, the balance of which would be altered by the deployment of weapons with a bigger range in Europe.[2]

The second question is to determine if it is advisable for the Western powers to agree to have gray area weapons as well as strategic ones included in SALT III. Important as may be considered the pursuit of SALT in the overall context of East-West relations and the policy of détente, it would be against the interest of all of us if medium-range arms were to be included for the sole sake of negotiating and because the Russians have been asking for it from the beginning.

Moreover, one cannot avoid being struck by the fact that there is no clear indication, so far, of the result that would be sought in such a negotiation. If medium- and long-range weapons are to be

[2] The point often made that the said clause has no practical effect since, in any case, the United States will not be able to deploy cruise missiles with ranges above 600 kilometers before 1981 is not entirely convincing. For, if the Russians found that clause useful while there was no danger of actual deployment, it may be that what they were interested in was indeed the precedent this established for the future.

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included in the talks, the question of how to account for the former will necessarily arise, and here the difficulties are grave.

If one seeks global equivalence in the totals of both arms systems treated as a unit, the Soviets will be entitled to say that they are put at a disadvantage, since all American weapons accounted for in the grand totals could reach their territory, while as far as they are concerned only those of intercontinental capacity could hit the United States. It would be naïve to believe that the leaders in the Kremlin would buy such a deal since, for the last ten years, they have insisted that not only U.S. bombers in forward-based systems, but French and British nuclear forces, should be taken into account.

If, on the other hand, one agrees to the Soviet definition of strategic weapons, i.e., any weapon that can hit the territory of the two superpower contracting parties, the Russian missiles aimed at Europe would be kept out of the agreement while those that the United States would deploy in Europe would have to be limited in numbers and included in the American total. In that case Washington would have to accept a position of inferiority in central systems—which means giving up the policy which was followed for SALT II.

It is therefore difficult to envisage what aim for the negotiation could be at the same time reasonable as far as the chances of success are concerned and acceptable in terms of Western security. To be sure, some would meet the dilemma by arguing that the purpose of the talks is neither the search for balance nor the consent to imbalance for this or that category of weapons, but to set ceilings for Soviet programs which otherwise would be developed freely. That argument has only one defect: it admits from the beginning that one possesses neither the power nor the will to match the programs of the opponent—a bad position from which to start a negotiation. Let us even go a step further and imagine that the Kremlin would agree to reduce by ten or 20 percent the number of SS-20s which are to replace, or be deployed alongside, the 600-odd SS-4 and SS-5 missiles now accounted for. It could hardly make any difference to the threat confronting Europe.

So, at least in the present state of things, the most likely result of talks on gray area weapons would be the political and juridical ratification of the inferiority of the Alliance in a range of armaments which is certainly the most important in the balance of forces on the old continent. It would be difficult to overestimate the adverse consequences on allied relationships as well as on the future of Europe of such a freezing of a new and dangerous situation.

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IV

Until and unless a definition of a negotiating purpose that gives an answer to the security problem of the Alliance as a whole in Europe is proposed, we must therefore hope that SALT III will continue, like the first two SALT exercises, to bear only on the central systems and not on theater ones. The worst error in any case would be to start off in a situation where the Russians have their programs in full swing while the U.S. position would be based only on its capacity to manufacture and deploy Pershing II or a mobile MRBM in Europe. With the Soviets, less than with anybody else, can possibilities be traded against facts. The press has indicated that there is an inclination in the U.S. Senate to ratify SALT II on conditions related to the launching of an MX program. Should that be true, the Europeans must hope that some provisions will equally be made for the adoption of programs aiming at taking care of the reversal of the situation on their continent.

But it would be asking too much, and probably unfair, to expect that such a policy could be adopted without a statement of their position by European governments. The precedent of the enhanced radiation weapon (or so-called neutron bomb) offers an example—so perfect that it is worthy of becoming classic—of how to mishandle a problem among allies.

It was certainly a good idea on the part of President Carter to ask the NATO governments their opinion and advice about the production and deployment of an armament expected to obviate, to a certain degree, Warsaw Pact superiority in tanks and armored vehicles. For the first time a momentous question about nuclear armaments for the defense of Europe could be made the subject of common discussion and decision.

The least to be said is that the responses were neither prompt nor clear. In Germany a controversy was started which transformed the question into an internal political debate. The Netherlands were hostile and Britain noncommittal, while France took the position she did not feel concerned since she has no part in the integrated command. Mr. Brezhnev sent letters to all European leaders asking for the rejection of the American offer. This unprecedented interference in the affairs of the countries concerned was seconded on home fronts by the communist parties and pacifists of all creeds. And, in the end, after two governments had eventually made known that they could, under certain conditions, agree to the stockpiling of the weapon on their soil, President

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Carter decided to delay deciding anything.

The same mechanism of pressure is already taking shape with the aim of paralyzing the Western powers over the question of medium-range weapons. Soviet diplomacy is at work and finds support in public opinion in various countries.

If, when confronted with the need for a decision, each government's reaction is to abstain in the hope that Moscow's wrath will fall on its neighbor—or if the Europeans expect the government or the Senate of the United States to make the right choice whereas Washington relies on its transatlantic partners to stick their necks out—the security of each and every NATO member will be in jeopardy.

It is because the matter is of general concern to the Alliance as a whole that the decision should not appear to be a bilateral affair between the United States, which would provide the missiles, and the countries where they would have to be deployed. There is no doubt that the acceptance of such deployment will present considerable difficulties and require great political courage for those concerned. The least that could be done to help them is a clear backing from their allies that would prevent Moscow from singling them out as the enemy and saboteur of East-West peaceful relations. Never was it more necessary that a decision on defense of vital importance to all members of the Atlantic Alliance be the result of an agreement by as many countries as possible, whether they have nuclear weapons on their territory or not, and whether these weapons are of American or domestic origin.

With the possibility or rather the likelihood of the gray area weapons being included in the next round, Europeans will be directly concerned and one cannot conceive that they will act as if they did not care.

In that respect it is somewhat worrying that the very word SALT should have assumed such importance in the diplomatic vocabulary—to the point of being synonymous with the pursuit of the policy of détente. The danger is to endow the symbol with the same importance as the substance. If there is no other motive or justification for extending the negotiation to the gray area than the need to feed SALT and perhaps give it a new start for the sake of it, then clearly the interests of the Europeans and Americans alike do not call for such an extension.

It may be our misfortune that European governments do not realize this, or that they will be unable to convince the American Administration not to yield on that point to Moscow's pressure.

In that case the last hope would be that Washington will no

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embark on the next phase of the negotiations before it has made the decision to produce and deploy the missiles. Such a decision would have to be accepted by the other party in the talks as a hard and fast policy just as the latter's own programs are accepted by the West. This would have to be the sine qua non condition of the talks being extended to gray area problems, if they are not to be deprived of any useful purpose before they start.

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Gregory F. Treverton

NUCLEAR WEAPONS AND THE "GRAY AREA"

At the fringes of public attention to the Strategic Arms Limitation Talks (SALT), the United States and its European allies are considering changes in NATO nuclear arrangements that bear on two decades of Alliance practice. The issue is what to do about the nuclear threat to Western Europe, and to NATO's deterrent, posed by Soviet systems targeted on Western Europe—the SS-20 mobile missile and other Soviet weapons in the "gray area" between the strategic and the tactical. Those weapons, coupled with strategic parity between the United States and the Soviet Union, have sharpened a long-standing European concern about the commitment of the American central nuclear deterrent to Europe's defense. This issue will rank behind only the dollar on the agenda of U.S. relations with Europe in the several years ahead.

SALT, present and prospective, bears directly on gray area issues. Europeans worry that SALT will do nothing about the Soviet weapons of immediate concern to them, and worse, will constrain possible Western "counters," especially cruise missiles. In the end, the United States and its allies may decide to modify NATO nuclear arrangements. But the political and military implications of the choices run deep into Alliance doctrine. On these sensitive issues, *how* the United States goes about reaching a decision with its European allies will be as important as what is decided.

II

In the late 1950s and early 1960s, NATO leaders decided, more or less consciously, to locate the bulk of NATO's strategic nuclear deterrent—its weapons capable of striking the Soviet homeland—not in Europe but rather "offshore," that is, in American bombers, submarines and land-based missiles. Debate about that decision

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ended with the demise in 1965 of the Multilateral Force (MLF), which was to be a fleet of NATO surface ships manned by sailors from different nations, carrying nuclear weapons whose firing would be controlled by the United States. Nuclear forces located in the European theater would serve as adjuncts to conventional defenses and, most important of all, as a critical middle rung on the escalation ladder, "coupling" the American strategic deterrent to the defense of Europe.[1] There always remained doubts about this state of affairs, but it was judged tolerable on both sides of the Atlantic.

Now, however, the situation seems unacceptable, especially to many in Europe. At the heart of the concern is doubt whether, in an era of strategic parity between the United States and the Soviet Union, the United States would in fact launch a nuclear attack on the Soviet Union in defense of Western Europe. In a more elaborated form, Europeans fear that the new Soviet theater nuclear weapons pose the possibility of limited Soviet nuclear attacks on Western Europe, or threats thereof. The only Western response might be from the central American strategic arsenal—an escalation that would risk the destruction of American cities.

Finally, there are specific European worries that the "noncircumvention" provision in SALT II will limit the American ability to transfer nuclear weapons technology to its allies, or that cruise missile limitations will deny the Alliance potentially attractive "counters" to the new Soviet threat. At another level, it is less the specifics of SALT II that concern Europeans than the signals to the Soviets implicit in American actions. For instance, assurances that the Soviet "Backfire" bomber will not be used against the United States—and thus will be deployed *only* against Western Europe—make many Europeans fear that the United States is suggesting to the Soviets, without meaning to do so, that American and European security *can* be decoupled. SALT also has several unhappy effects on public perception: increased attention to nuclear matters disturbs uneasy but dormant compromises within the West; and, by underscoring what is being negotiated, SALT also emphasizes what is left out.

[1] This is something of an oversimplification. American and Soviet programs can be seen as being driven by their differing strategic conceptions: for the United States, the medium-range ballistic missiles (MRBMs) developed for Europe in the 1950s and 1960s were a temporary expedient; once Soviet targets could be covered by intercontinental ballistic missiles (ICBMs), the need for MRBMs ended. By contrast, the Soviets sought from the beginning to have nuclear capabilities against *both* the homeland of their principal antagonist *and* the likely locus of any conflict, Europe. Critics believe that the United States has long overlooked the importance of Soviet long-range *theater nuclear systems,* and SALT is guilty of reinforcing that neglect.

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In the spring of 1978, the allies reached a tentative agreement to increase the size of NATO's nuclear forces in Europe capable of striking the Soviet Union. The Carter Administration, reluctant then, has moved toward accepting that conclusion. Meetings this spring of NATO defense ministers have confirmed that disposition, although final decisions will not be taken before autumn.

An increased force might cause more problems than it solves, however, for there are in the current situation more than faint echoes of the MLF affair. The MLF was a technical solution to a political problem, namely, Germany's so-called second-class status in the Alliance because of its lack of access to NATO's nuclear levers. Washington heard then, as it does now, a European, and especially a German, concern, clear in importance but short on specifics (as German pronouncements on nuclear weapons are apt to be). Ultimately, the MLF was unconvincing on its military merits. But more important, MLF, far from solving a "German problem," threatened to split the German government at the seams.

III

Why do arrangements that seemed tolerable for two decades, if never ideal, now appear unacceptable? Unquestionably, the most important reason is the emergence of something like strategic parity (or worse) between the United States and the Soviet Union. SALT II codifies that parity. Under its provisions the two sides would each be limited to 2,250 strategic launch vehicles, with sublimits on various categories of multiple independently targeted reentry vehicle (MIRVed) launchers. Depending on the pace of various development programs, the United States will retain a lead in the number of warheads, but that lead will narrow. The Soviet Union will maintain and probably increase its lead in many other indices, especially missile size, or "throw weight."

In particular, SALT II will do little to reduce the foreseeable Soviet threat to American land-based intercontinental ballistic missiles (ICBMs)—the Minuteman—and the debate over Minuteman vulnerability will be at the center of discussions of SALT III and of American strategic planning. The vulnerability of Minuteman feeds European concern over the implications of parity, psychologically if not analytically, by suggesting another reason for American caution if Europe alone is attacked by Soviet nuclear weapons. The United States could be counted on to fire missiles from its strategic arsenal—thereby risking its cities—in

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response to a Soviet nuclear strike on Western Europe so long as the United States possessed clear nuclear superiority. Now, it is argued, Europe cannot be sure of the American response. The fear is of long standing; parity has sharpened it and given it more justification.

A companion concern derives from the new nuclear weapons the Soviet Union has begun to deploy. These—primarily the SS-20 mobile medium-range ballistic missile (MRBM), and the "Backfire" and "Blinder" bombers—seem explicitly intended for use against Western Europe (and China). Militarily, these weapons could give the Soviet Union new kinds of options in attacking Western Europe. Each SS-20, for instance, has three warheads (MIRVs), and is both mobile and more accurate than each of the 600 SS-4 and SS-5 missiles it supersedes; the SS-20 does not, in this view, suffer from the "shoot it or lose it" defect of its vulnerable predecessors. Its range may reach 3,000 miles; some 120 are now deployed, in a force projected to grow to 250, perhaps more.[2] Politically, the SS-20 in particular suggests that the Soviet Union has nuclear objectives against Western Europe (and China); it cannot be explained, as might the SS-4 and SS-5, as merely a technical way station en route to an intercontinental ballistic missile.

A third change, much less discussed, is the modernization of Soviet battlefield and short-range theater nuclear weapons. For instance, the Soviets have begun to deploy the SS-21, an improved and slightly longer range replacement for the FROG missile, may soon field two other new missiles, the SS-22 and -23, and are developing nuclear artillery—formerly a NATO monopoly. These changes also suggest that the Soviets may take the prospect of nuclear war-fighting in the European theater more seriously than had been thought.

It is less clear precisely *how* NATO's current nuclear position in the European theater is inadequate in light of these changes. European statements sometimes imply that Soviet forces are growing while American capabilities are declining, and thus that the Soviet Union has more and more military targets while the United States has fewer and fewer warheads to cover them. Quite the contrary. At present, the United States has nearly 9,000 warheads (including the 400 or so Poseidon warheads assigned by the United States to NATO and targeted by the Supreme Allied Commander, Europe), and that number will continue to increase

[2] These figures are from *The Military Balance, 1978–1979*, London: International Institute for Strategic Studies, 1978.

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under the terms of SALT II.[3] Beyond the early 1980s, with bombers carrying cruise missiles and with the new Trident submarine force, the United States could deploy almost any number of warheads it chooses.

Any military problem, therefore, is not one of total NATO capabilities but rather of specific scenarios. It boils down to the possibility that the Soviet Union might threaten to employ limited nuclear strikes from the SS-20 or its kin against military targets in Western Europe. It could do so, the analysis runs, while retaining a clear second-strike capability against Western Europe from its SS-20. Whether the Soviet Union has ever considered, or might ever consider, such an option is another question.[4]

If the Soviets were to employ such tactics, NATO would have only a limited capability to launch similar counterstrikes *from European soil.* NATO's choices would be American or allied aircraft capable of delivering nuclear weapons, based in Britain or central Europe—so-called forward-based systems—British and French nuclear systems, U.S. Poseidon submarines (the most likely), or a combination of these. There are grounds for technical doubt about these options—for example, concerning the ability of planes to penetrate, or the accuracy of sea-based systems—but these issues are secondary. The real military issue becomes a political question: Would the President of the United States authorize Poseidon strikes? Would he be more likely to authorize a strike if the weapon to be used were an American ground-launched cruise missile (GLCM), or a medium-range ballistic missile based in central Europe? Does the visibility of a system based on land or on a surface ship, versus Poseidon's invisibility, make a difference to deterrence?

There is little analytic ground for arguing that the President of the United States, confronted with Soviet forces about to overrun Western Europe or with a Soviet nuclear attack on selected targets in Western Europe, would be more likely to press the button marked "GLCM (or MRBM) in central Europe" than he would be to press "Poseidon." But the evident fact that some Europeans

[3] For a comparison of U.S. and Soviet forces under several SALT regimes, see Richard Burt, "Reducing Strategic Arms at SALT: How Difficult, How Important?" in *The Future of Arms Control, Part I: Beyond SALT II,* London: International Institute for Strategic Studies, 1978, p. 8.

[4] The debate over Soviet doctrine, or even whether there is one in our terms, is a lively one. For recent contributions, see Robert Legvold, "Strategic Doctrine and SALT: Soviet and American Views," *Survival,* January-February 1979, pp. 8–13; and Raymond Garthoff, "Mutual Deterrence and Strategic Arms Limitation in Soviet Policy," *International Security,* Fall 1978, pp. 138–55. For a discussion with more specific relevance to Europe, see Joseph D. Douglass, Jr. and Amoretta M. Hoeber, "The Nuclear Warfighting Dimension of the Soviet Threat to Europe," *The Journal of Social and Political Affairs,* Summer 1978, pp. 107–46.

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think he would cannot be dismissed.

IV

Europeans confront a dilemma in addressing the gray area question: to discuss it may be to make the situation worse. To raise the issue is to question coupling, thereby risking the creation of a self-fulfilling prophecy. Put differently, for well over a decade Western Europe has been threatened by Soviet SS-4 and SS-5 missiles (and other systems), a threat not qualitatively different from that posed by the SS-20. Yet the threat conferred little political influence on the Soviets because the Europeans paid little attention to it.

It is the West Germans who have expressed the most open concern over the gray area question. That is new and slightly discomforting to an Alliance in which the Germans long have stayed in the background of discussions about nuclear weapons.[5]

In his speech at the International Institute for Strategic Studies in London in October 1977, West German Chancellor Helmut Schmidt called explicitly for a recognition of the need for parity at all levels—strategic nuclear, theater nuclear and conventional. When he met Soviet President Brezhnev in Bonn in May 1978, Schmidt urged the United States and the Soviet Union to negotiate over some theater nuclear systems in SALT III, and he apparently pressed the point on President Carter during the meeting of heads of state and government last January. Throughout discussions of SALT II within the Alliance, West Germany was the ally most skeptical about American assurances on noncircumvention provisions, most concerned about cruise missile restrictions, and most eager that the United States commit itself, in the SALT III principles section of SALT II, to some negotiation of gray area weapons in SALT III.

Paris and London have been clearest about what they do not want—theater nuclear negotiations that will involve their own independent nuclear forces. The French have remained aloof from SALT or related deliberations within the Alliance, since they are members neither of NATO's Nuclear Planning Group nor of the Alliance's integrated military command. Britain shares France's interest in assuring that no possible gray area negotiation will

[5] The current situation differs from the MLF episode in one important particular: German access to nuclear weapons is not an issue; any new weapons in Europe will be American, or "dual-key," with Americans retaining a veto over firing.

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bear on its independent forces, although for London the question is further complicated by the touchy politics of deciding what to do about a next generation of those independent forces. Both countries, and especially France, have been inclined to feel a problem exists if the Germans perceive one, and hence have been attracted to some increase in Western nuclear hardware in Europe.[6]

The Federal Republic must share its allies' skepticism about what negotiations could accomplish, and Schmidt may well regret having dramatized a set of issues for which no solutions are at hand. The view of the Federal Republic is inherently split: it is both most exposed to the threat of the SS-20 and most anxious to preserve some shred of East-West détente. The Chancellor has thus had to steer a course between the call of the opposition Christian Democrats to deploy new weapons before negotiating and the expressed concern of his own party's Bundestag leader, Herbert Wehner, that new weapons might damage what is left of détente. In the process, Bonn's official positions have been mostly negative—no new weapons in Germany alone—and the gray area issues have looked more and more like bilateral business between Bonn and Washington, an impression that serves neither the two governments nor NATO.

Washington's approach to the gray area issue has also shown ambivalence. In the spring of 1978, the Defense Department was prepared to embrace the NATO consensus in favor of increasing the number of long-range systems based in Europe. However, the Administration backed away from that consensus and remained neutral, to the distress of some allies. The initial American reaction was dominated by concern lest the gray area issue further complicate SALT II, and by a strong sense that NATO was not ready to reach decisions on issues that touch the center of its nuclear doctrine and practice. Yet bureaucratic momentum developed amid official open-mindedness, and various branches of the government said different things to the Europeans. At the same time that the White House and State sought to dampen enthusiasm over cruise missiles and so reassure Europeans about the SALT II protocol, Pentagon officials were singing the virtues of cruise missiles to their European colleagues.

The neutron bomb affair of the last two years stands as a procedural warning. The United States had told its allies it was

[6] For a sophisticated "private" view by a French official, see Jean-Louis Gergorin, "Les négociations SALT et la défense de l'Europe," *Défense Nationale*, June 1978, pp. 43–56.

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prepared to produce the weapon and deploy it in Europe, but only if the Europeans would publicly support such a course. European leaders, especially Schmidt, were thus pulled into more direct involvement in the decision than they found politically comfortable. Then, at the eleventh hour, President Carter reversed course and announced, in April 1978, that production would be deferred indefinitely.

On the gray area issue, then, the United States could not just say it was prepared to do whatever its allies wanted, for that would have been to risk a repeat of the neutron bomb debacle on a far more critical issue; so the official U.S. view moved toward accepting the NATO consensus of the previous spring, at least as a sign of seriousness in addressing allied concerns. That formed a basis for a series of consultations—bilateral and within NATO—during the fall of 1978 and into 1979. Yet the discussions for some time remained unsatisfactory to those on both sides of the Atlantic. Europeans suffered the discomfort of having to express concern that the United States would give up cruise missile options in SALT but not being able to say which, if any, of those options they might want. And some Americans carried into the gray area issue residual anger from the neutron bomb episode: How can Europeans berate us about cruise missiles and the SS-20 when they would not stand up and be counted in favor of a much less significant weapon, the neutron warheads?

On the specific SALT II issues of concern to Europeans, the United States has reached agreements with the Soviets that will satisfy the Europeans, if hardly make them enthusiastic. The cruise missile limitations in the protocol lasting for about three years (no range limitation on air-launched cruise missiles but no deployment of ground and sea-launched cruise missiles with ranges over 600 km) will permit the United States and its allies to develop cruise missile programs, although Europeans remain worried that the Americans will be under pressure to extend similar provisions in SALT III. On noncircumvention, the United States interprets the SALT II language as not precluding all cooperation with allies. Washington argues, in effect, that the provision itself makes little difference: with or without it, certain kinds of technology transfers to allies would pose political problems, to be dealt with case by case. Finally, the principles for SALT III, contained in SALT II, are very general, leaving open the question of theater nuclear negotiations in SALT III.

Europeans remain concerned over these specific SALT II issues, but that concern is muted, especially for the Germans, by the

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political imperative of assuring that the SALT process continue. So long as SALT ratification could be taken for granted, Europeans felt free to press their concerns on Washington. Now that it is clear that ratification is in danger, the Europeans do not want to increase that danger, nor have their arguments become grist for SALT opponents in the Senate. Helmut Schmidt seems to have laid down a clear line that no German official will be heard muttering against SALT II.

The combination of a political need to support SALT II and doubts about where it is leading is hardly a happy one for European leaders, especially if they feel under pressure to decide how they want to handle the gray area issue. Schmidt would like to defer final decisions until after his elections in October 1980. There is no need for the United States to force the pace. Yet the fact that a tentative decision to deploy new weapons has been taken covers only a small part of the problem. If the United States and others are to avoid serious mistakes, they must not let the availability or schedule of weapons programs dictate the making of complex decisions. At present, NATO discussions of new weaponry are much in advance of deliberations about gray area arms control. That is not surprising—weapons choices are more concrete, and easier—but the gap is bad policy and bad politics. It was only late this spring that NATO created a special group to look at arms control, matching the so-called High Level Group that has been looking at weapons choices for nearly two years. The impression that the Alliance is moving smartly toward deploying new weaponry without evidence of real attention to arms control will only increase the political heat on European leaders, and nowhere more than in the Federal Republic.

V

There are no once-and-for-all solutions to the gray area problem. So long as Europe ultimately depends on the American strategic deterrent, there will remain the paradox that NATO's doctrine rests on an American response even when American soil is not attacked. All that can be done is to manage that paradox. In confronting the gray area question at this juncture, the United States and its allies face interlocking choices of force posture and negotiation. The choices are simply stated: to adopt new political measures, to deploy new weapons capable of striking the Soviet Union, to seek negotiated constraints on Soviet systems, or some combination of all these.

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An approach limited to political measures need not be as inconsequential as it might first seem. What resulted after the last period of interallied strain over nuclear doctrine, the MLF episode, was a political mechanism, the Nuclear Planning Group (NPG). This includes the United States, Britain, the Federal Republic and Italy, plus three or four others in rotation (France does not take part); defense ministers of NPG members usually meet on nuclear matters once a year. Unquestionably, at its inception the NPG provided the allies with more information about American systems, thus enhancing coupling.

A limited approach would not foreclose options over the longer term, but would only assume that the Alliance is not ready to reach basic decisions now and that such choices are not now imperative. It can indeed be argued that new military deployments could well cause more problems—both political and military—than they would solve. If significant enough to matter at all, new weapons would raise the specter of decoupling. If small enough to avoid that problem, they would hardly be worth the political effort—and cost—within the Alliance of reopening the issue of long-range nuclear weapons in central Europe. Reassurance might be provided, for the time being, by the United States assigning additional Poseidon warheads to NATO and taking actions to underscore their commitment to theater purposes, while stressing again America's commitment to the nuclear defense of Europe.

As the allies move toward SALT III, new forms of consultation between the United States and its European partners will in any event be required, even if NATO does not launch a gray area arms control initiative. During SALT II, "consulting" the allies, meticulous though it was, meant informing them and giving them a chance to object. The Europeans will need to have more real say over aspects of SALT III that are of direct relevance to them—a logical extension of the SALT II arrangements, whereby the United States reported to the North Atlantic Council often and in detail on the course of the negotiations. That was supplemented by meetings reinforced with SALT experts from national capitals, and by bilateral consultations. In SALT III, NATO will need procedures in order to agree on issues that directly affect Europeans, to guide American negotiators, even if the debate over where and how binding NATO guidance should be produces some strain in the Alliance.

In parallel, the NATO allies should examine the adequacy of their consultative mechanisms in the nuclear realm, especially the

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NPG. The problem is that the NPG cannot serve as a means of pressing the political implications of nuclear choices on the top levels of NATO governments. The neutron bomb, for example, proceeded happily through the Alliance at the technical level, with neither the NPG nor any other Alliance instrument sounding a warning of the likely political impact. By the time allied leaders understood the problem, it was too late.

The reasons why the NPG cannot play such a role are not hard to find. First, it is a force-planning body, not a forum for political decision. Second, it is a defense ministry operation; its ministerial participants may share with their bureaucracies an interest in not raising warning signals that threaten new weapons proceeding down their budget tracks. And the NPG's emphasis on security, appropriately enough, has limited the range of officials in any government who know of the issues that come before it and hence are in a position to draw their implications.

Sadly, I do not believe political and consultative measures will suffice. The military problem, if limited, is real. At a minimum, the perception of NATO's inadequacy is severe enough to endanger the effectiveness of deterrence. Some new weaponry will be required in the end. The obvious questions are: How many new weapons, and which ones?

On military grounds, it is hard to argue for more than a small force. If the purpose is to provide NATO with more nuclear options *from* Europe to counter the threat of selective Soviet strikes against Western Europe—and thereby to ensure coupling to the central American deterrent—a small force should suffice. Moreover, the domestic row provoked in Western Europe by the prospect of deploying a large new nuclear force on European soil could make the neutron bomb affair look tame by comparison. Europeans may all agree in principle that Europe should have more long-range nuclear weaponry, provided it is located in someone else's country. And, of course, a large force is almost by definition decoupling: Why build such a strategic force in Europe if the coupling of the American force to Europe's defense is credible?

The primary requisites of any force, and especially a small one, would be the ability to survive preemptive Soviet strikes and to penetrate Soviet air defenses. Survival argues for mobility, so that missiles or aircraft cannot be destroyed before they are fired or can be put into the air.

The need to penetrate argues for a ballistic missile force, instead of cruise missiles. Given the existing Anti-Ballistic Missile (ABM)

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Treaty, the Soviets can have no effective defense against ballistic missiles. Their ability to penetrate is assured. Not so, however, for cruise missiles, which over the next decade will rely either on large numbers or increasing sophistication to ensure that enough could get through improved Soviet air defenses. Thus, to be effective for several decades a new NATO cruise missile force would have to be larger than European domestic politics would easily allow, or more expensive than cruise missiles now appear, or both.[7]

There are other reasons why an MRBM system may be preferable to a cruise missile force. *Any* new force could be destabilizing: to be mobile enough to survive, it would pose verification problems. But an MRBM would be unambiguously nuclear, while cruise missiles might not. The Soviets could be more certain of its range; it might, for instance, be set up to reach military targets in the western part of the Soviet Union but not to strike Moscow. Cruise missiles, which are relatively slow, would have the virtue of not posing nearly the same first-strike threat as an MRBM, but neither would they permit a quick response if that were required.

Now that cruise missiles are on the table at SALT, wisely or not, an MRBM would have the virtue of not holding NATO deployments hostage to those negotiations. One possibility would be a longer range version of the Pershing missile already in Europe—the Pershing IIXR with a range upward of 1,000 miles. The fact that something called a Pershing already is fielded in Germany might reduce both the strain on European domestic politics of its deployment and the likelihood of a strong Soviet reaction.

There will, of course, remain the problem of where to locate a new force. The Federal Republic is the logical place, but deployment there alone is not in the cards, and no other country is likely to step forward. A mixed force of ballistic missiles, perhaps cruise missiles on surface ships, ground-launched cruise missiles, or even improved nuclear-capable aircraft, would minimize political problems as well as hedge against an uncertain technical future. Yet the heart of that force probably should remain ballistic missiles in Germany.

If new weapons are to be deployed, some sort of arms control effort will be required. What logic suggests, politics will compel. So far, much of the discussion of new forces has assumed, unrealistically, that NATO actions will not prompt Soviet reactions, but

[7] On cruise missile costs, see Desmond Ball, "The Costs of the Cruise Missile," *Survival*, November-December 1978, pp. 242-47.

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new weapons would hardly look attractive if the Soviets responded with more SS-20s. Moreover, Wehner's comments and the incipient debate in the Federal Republic illustrate the political pressures for an arms control initiative that will arise if new weapons are contemplated.

Yet, alas, negotiations in the gray area are not attractive.[8] The most obvious problem is what the subject would be. In principle, opening the gray area box could also open up the entire theater nuclear box. If the ensuing negotiations involved short-range systems, they would be extremely messy at best; at worst, they could seriously constrain NATO's ability to compensate for Soviet conventional force advantages with modernized battlefield and shorter range nuclear forces. On the other hand, if the negotiations were somehow confined to U.S. and Soviet long-range theater systems, NATO would not have many negotiating chips, largely as the result of its own doctrine. What Europeans now perceive as NATO's weakness in long-range theater systems can hardly be regarded by the Soviets as an inducement to arms control concessions.

Yet it is hard to see how negotiations could be avoided even if NATO preferred to avoid them. *Some* gray area issues are certain to be on the SALT III agenda, like it or not; hence, European interests will inevitably be involved in SALT III. In any case, the protocol will come to an end and with it the limits on cruise missiles. The Soviet Union no doubt will argue that protocol limits should remain in force, but the United States should be able to exact a price for doing so. It will be tempting to trade some limits on ground- and sea-launched cruise missiles (which at that point will be further along in development but not yet deployed) for some restriction on the Soviet SS-20.[9] Perhaps the Soviets would reckon such a trade to be a good one. They might, however, revert to the demand they made throughout SALT I: that there must be limits on American forward-based systems—aircraft with a nuclear capability based in Europe—and perhaps that British and French strategic systems must somehow be addressed. In the end, the real question will be how to manage negotiations, not whether to have them.

[8] For discussion of arms control issues, and for detailed tables on Eastern and Western forces, see Robert Metzger and Paul Doty, "Arms Control Enters the Gray Area," *International Security*, Winter 1978/1979, pp. 17–52.

[9] First deployment—so-called Initial Operational Capability (IOC)—of air-launched cruise missiles in heavy bombers is scheduled for 1982. No final decisions about longer range ground- or submarine-launched ballistic missiles (GLCMs and SLCMs) have yet been made, so deployment dates for them would be later.

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If NATO is to negotiate gray area systems, it should negotiate where its doctrine suggests and where coupling compels—at SALT. The Mutual and Balanced Force Reduction (MBFR) talks in Vienna already suffer from the need to treat too many different kinds of weapons systems. Adding theater nuclear weapons to MBFR would make it hard to exclude short-range systems intended to complement conventional forces. That, in turn, would compound the risk that MBFR might complicate the modernization of tactical nuclear weapons that NATO so badly needs to accomplish. In doctrine, adding gray area weapons could be decoupling because of the implication that NATO weapons could be separated from NATO's ultimate deterrent—U.S. strategic forces. Moreover, the Soviet systems of most concern to the Europeans are based outside the MBFR area, in the Soviet Union itself. And adding gray area weapons to MBFR would cause further problems with the French, who do not participate in MBFR and would again be (self) excluded, but with legitimate fears that the new negotiations would bear directly on their interests.

A separate negotiation over theater nuclear weapons would be even worse. Substantively, it would produce just the process NATO should be trying to avoid—codifying and then negotiating over a "theater nuclear balance." That would be decoupling in the extreme.

VI

The gray area question thus confronts the United States and its European allies with a dilemma. A small number of new nuclear weapons in Europe capable of striking the Soviet Union is needed but not easy, politically, to deploy; some effort at arms control must accompany that deployment, but no such approach is attractive. The combination is grounds for caution, for the worst of all outcomes would be for NATO to direct attention to the gray area threat but then find itself unable to do anything about it.

There are no easy ways to square the circle. NATO should, I believe, move carefully toward deploying some new weaponry while doing what it can to prepare the ground politically. This may be the time, for instance, finally to remove several thousand of the redundant American nuclear warheads in Europe. Beyond that, NATO should avoid offering not to deploy weapons if the Soviets themselves demonstrate restraint, as was the plan at one point with the neutron warheads. Such a proposal looks weak and

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indecisive, invites Moscow to meddle in Western force planning, and ensures division within NATO over the conditions to be set and, later, over whether they have been met.

Instead, I believe NATO should aim for a limited agreement at the end of the SALT II protocol, trading continuation of some limits on ground- and sea-launched cruise missiles for some constraints on the SS-20. Even that sort of deal may not be easy: if NATO has moved toward deploying significant numbers of long-range cruise missiles, it will be chary of limits; if it has not, Moscow will not be much interested in a trade.

In the end, the United States must bear most of the burden of deciding whether or not to deploy new weapons in central Europe, and will have to take most of the political heat. That will be uncomfortable, and will seem illogical in light of the nature of the issue and the increasing influence of America's European partners, especially the Federal Republic. But to insist that Europeans fully share in the decision to produce and deploy new nuclear weapons risks a much more serious version of the neutron bomb episode. Instead of grumbling about Chancellor Schmidt's indecision or the German socialist Left's romantic attachment to détente, Washington would do better to remember that, of the major NATO powers, only the Federal Republic is a non-nuclear-weapons state. Both West Germany and America share an interest in having it remain so, and Bonn may thus be entitled to some exemption from participation in nuclear decisions which its stature would not allow it on other issues.

The United States must lead. But there *is* time. SALT II will not unduly restrict future European weapons choices. It will rather lay down a general marker on theater negotiations in SALT III that can be picked up later if NATO chooses, but that will not be binding if the Alliance chooses to restrict the negotiations. Given the ratification process and the ensuing U.S. presidential campaign, there will be no SALT III to speak of before 1981 at the earliest. The Administration may well be called upon during the SALT II ratification debate to say what it intends to do about the gray area problem. But ratification would hardly be served by risking the disarray in the Atlantic Alliance that would come from forcing decisions on unprepared Europeans.

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Saburo Okita

JAPAN, CHINA AND THE UNITED STATES: ECONOMIC RELATIONS AND PROSPECTS

Interest in the future of the Pacific region has been increased in the past year by dramatic events, notably the conclusion of a peace treaty between China and Japan and the normalization of relations between the United States and China. And, over a longer period, the realization has grown that the Western Pacific region—which includes Japan, Korea, Taiwan, Hong Kong, the ASEAN countries (the Philippines, Thailand, Malaysia, Singapore, and Indonesia) and China—is one of the most dynamic areas in the world in terms of economic growth and development.

Although Japan's rate of economic growth since the 1973-74 oil crisis has been reduced from around ten percent to about five to six percent, the country still maintains a higher growth rate than any of the other industrial nations. South Korea, Taiwan and Hong Kong have been growing at about ten percent per annum, even since the oil crisis, and their trade volumes are expanding rapidly. The ASEAN countries are also performing well, growing at a rate of six to seven percent a year, which is higher than the rest of the world's developing countries. China's annual rate of economic growth has been estimated at 5.3 percent for the 1970–75 period, and China's new ten-year economic development plan which was announced in February 1978 (covering the period 1976–85) projects a growth rate of about eight percent a year (although, as we shall see, this figure may be reduced somewhat in subsequent reexaminations of the plan).

In contrast to the performance of these Western Pacific coun-

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tries, economic growth in other parts of the world, with the exception of Latin America, has been much lower. With the cumulative effect of these different rates of growth, the Western Pacific will have a much larger share of the world economy by the end of this century. Already in 1977 American trade with Pacific countries exceeded that with Europe for the first time in her history.

Inevitably, Japan is playing a central role in what has been called this "great transformation."[1] Particularly is this true of economic relationships: Japan's postwar economic ties to the United States have been fundamental to Japan's own progress as well as to the wider regional and world economies; Japan's trade and aid have in the past 15 years come to reach throughout East Asia; and, most recently, Japan has assumed a major external part in the new economic programs and policies of China. Yet today there is concern over the difficulties that have arisen in U.S.-Japanese economic relations, and a sense that both countries need to assess carefully the significance of China's new course and the role that each should play in relation to China. It is the purpose of this article to examine these issues as objectively as possible, from the standpoint of a Japanese who has tried for years to think and work in terms of what is best not only for Japan but for the Asian region and the world.

II

In 1978, Japan's gross national product reached almost half that of the United States; the level of overall trade between the two countries continued to rise, to a total of $39.7 billion, making Japan, next to Canada, the largest single trading partner of the United States.

Recent relations, however, between Japan and the United States have been increasingly acrimonious, marked by repeated confrontations over various economic issues. In the United States, characterizations of Japan's trade policy as "unfair" and as damaging to both the United States and the world economy can be frequently heard. A recent editorial in *The New York Times*, for example, commented critically on Japan's economic policy and concluded by saying, "American consumers have a stake in open trade with Japan, which the White House should defend. But if

[1] Stanley Karnow, "East Asia in 1978: The Great Transformation," *Foreign Affairs*, America and the World 1978, pp. 589–612.

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Japan does not look inward for future growth, our great Asian ally may become a victim of its success."[2]

At the risk of oversimplification, the causes for American irritation with Japan seem to fall principally into three categories. The first concerns the trade balance: Japan's global current account surplus of $16.6 billion in 1978 contrasts with an American current account deficit of nearly equal magnitude. Japan's surplus in trade account amounted to $24.6 billion, $11.6 billion of which arises from the bilateral U.S.-Japanese trade account itself. Japan is seen as having promoted exports regardless of their impact on others. Similarly, Americans argue that while their markets are open to foreign suppliers with minimal restraints, Japan in practice makes the way difficult for imports generally, and in some instances keeps the door closed completely.

Japan's so-called free ride on defense matters is a second source of irritation in the United States. The argument is that while the United States annually spends more than $120 billion on defense, Japan only spends about ten billion dollars. As a percentage of GNP, Japan's expenditure is much lower than that of either the United States or European countries. Another complaint along these same lines concerns the amount of foreign aid extended by Japan to poorer countries. Also, on a variety of international issues Japan seldom takes the initiative or leadership and this is interpreted by Americans as "narrow selfishness."

Each of these first two causes of irritation is of long standing. The third is more recent. It relates to American anxiety about future competition from Japan in high-technology industries. A typical expression of this concern can be found in the following sentences taken from the Jones Report, a Task Force Report prepared in January 1979 by the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives: "If Americans perceive that our strongest industries—computers, aircraft, advanced electronics, etc.—are being overtaken unfairly, the domestic political reaction is likely to be strong." (p. 52) "We believe that the Japanese threat in these high technology areas may soon become the most explosive economic issue between our two nations." (p. 51)

Related to this concern, Americans tend to see in their past and present relationship with Japan a ready model for future difficulties with other countries in East Asia, arising from the growing

[2] *The New York Times*, February 19, 1979, p. A14.

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volume of American imports of industrial manufactures from "new Japans." We find in the same report the following: "Further, we foresee 'Japan trade crises' recurring with other developing countries—the so-called 'new Japans' of the Far East such as Taiwan, Korea, Hong Kong and Singapore—and later other developing nations throughout the world. . . . These recurrent and developing trade crises are destructive to international goodwill and injure other aspects of American foreign policy" (p. 50).

Coming back to U.S.-Japanese economic relations in themselves, there have been, and are, complaints on the Japanese side as well. Not only in the celebrated cases of the Nixon "shocks" of 1971, but more recently, the United States has tended to engage in what seem to Japanese to be abrupt actions or pressure, sometimes touching politically sensitive areas, which create a sense of frustration and sometimes even anger in Japan. It is true that many of the shocks so far administered were to prod Japan into adopting policies which are necessary for the maintenance of harmonious relations with other countries and for delivering benefits to the Japanese consumer. In this context good advice from a close friend is often appreciated. However, if the advice becomes too frequent it may create a sense of frustration. The problem is compounded by the fact that Japanese people usually do not react immediately when they have objections or feel slighted. Instead they concede something on the particular issue—but with the result that stress builds up inside them. If such accumulated stress reaches a certain level, it may explode in an irrational form.

More basically, from a Japanese point of view American economic policy has for many years left much to be desired. The major Japanese complaints have concerned the continuing high rate of inflation in the United States and the relatively weak policy measures taken to stop or reduce it, and (closely related) the failure of the United States to economize on the use and import of oil—to the point where America's bill for imported oil in 1979 is now estimated at $50 billion. Behind these specific concerns, moreover, lies a deeper concern, that inflation rates and balance-of-payments deficits in the United States reflect low productivity growth and structural difficulties and habits. These seem reflected most strikingly in what informed Japanese see as a dangerously low rate of personal savings in the United States—now estimated at about five percent of personal disposable income, as compared with 13 percent in France, 15 percent in Germany,

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and 22 percent in Japan herself. I hope it will not be misunderstood if I say that some Japanese look at the American economy in a little of the same spirit that the ant reproached the grasshopper in the fable of Aesop.

The third category of irritants on the Japanese side concerns American demands for achievement of major changes, in a very short time, in the basic characteristics and thrust of Japanese economic policy and social habits. In suggesting that Japan "look inward for future growth," Americans seem to be asking that the Japanese people change abruptly the very habits that have produced the high levels of personal savings to which I just alluded, becoming in effect more oriented to immediate consumption, with a higher emphasis on imports and reduced emphasis on investment for export. I shall discuss in more detail in a moment the relationship between savings and investment, on the one hand, and the balance between exports and imports on the other. The broader point is that to bring down Japan's high rate of savings in a short period of time would be just as difficult as raising the rate of savings in the United States. Both are intricately related to broader economic and social structures. Structural changes usually take a decade or more, not one or two years.

The fourth category of Japanese complaints concerns the occasional lack of understanding by the United States of the historical and social background of many of the Japanese government's policies and practices. One such factor which influences government policy is the sense of uncertainty about the future and a feeling of vulnerability concerning the economy. Frequent earthquakes and other national calamities combined with high dependence on foreign supplies for such essential commodities as food, energy and raw materials may be the cause of this sense of uncertainty. In any case, this factor often produces a more prudent policy in the spending of foreign exchange than that found in countries endowed with abundant natural resources.

To take an immediate example, the political upheaval in Iran and resulting sharp oil price increases and supply uncertainty have led the International Energy Agency to recommend recently that its members reduce their oil consumption by five percent in 1979. Japan fully supports and accepts this policy. At the same time, since a very large part of Japan's oil consumption is for industrial production, there is bound to be some impact on Japan's growth rate in 1979, and this point does not appear to have been understood by those Americans urging that Japan

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speed up its growth rate sharply in order to reduce its balance-of-payments surplus.

III

Let us return in more detail to the causes of American irritation with Japan, starting with the issue of Japan's large balance-of-payments surplus. Undoubtedly, the size of that surplus—both in global terms and bilaterally with the United States—does reflect in part the policies of successive Japanese governments, designed to meet the sense of vulnerability and need to build up foreign exchange that I have just mentioned.[3] But the present surplus also stems from certain structural factors, including the steady rise in technical advances and productivity (both in absolute terms and relative to other countries) and especially the very large surplus in domestic savings that has existed for some years.

Japan's high rate of savings—not only the personal rate just mentioned, but rates of saving by institutions—was until recently matched by very high rates of investment (almost entirely domestic), so that there did not exist that excess of savings over investment that, in standard economic analysis, goes hand in hand with an excess in exports over imports.[4] However, in the period since the 1973–74 oil crisis, Japan's growth rate and rate of investment have tended to drop, while the rate of savings has remained high. One could put it that Japan's transition from a production-oriented low-consumption economy to a consumption-oriented affluent society—which might have got under way in the early 1970s and tended to follow roughly the similar evolution of the U.S. and other economies at earlier periods—was held up by the uncertainties of the post-1974 economic climate. The result is that a large surplus of savings over investment now exists and will not readily be dispelled.

In large part for this structural reason, a five-year projection of the Japanese economy published by the Japan Economic Research Center (JERC) in February 1979 has concluded that for at least the next few years the surplus in Japan's global current account is likely to continue at an average annual rate of about ten billion dollars—less than the $16.6 billion surplus of 1978 but somewhat

[3] For a closely parallel discussion of this point, see James C. Abegglen and Thomas M. Hout, "Facing Up to the Trade Gap with Japan," *Foreign Affairs*, Fall 1978, pp. 150–52.

[4] Among economists, the standard equation for this relationship is S (savings) minus I (investment) equals X (exports) minus M (imports). The lay reader may recognize some of the contributing factors: that low savings tend to increase consumption and thus imports, and the same for high investment.

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higher than the surplus now forecast for 1979—$7.2 billion, according to the JERC estimate.[5]

One policy measure designed to reduce this surplus of savings is to absorb excess domestic savings by issuing government bonds to finance budget deficits. However, in fiscal year 1979 this deficit amounted to 40 percent of the government's budget (about $75 billion in absolute amount), up from 37.6 percent in fiscal 1978 and 32.9 percent in fiscal 1977. It is simply not realistic to expect significantly higher percentages of the budget to be financed by the deficit mechanism.

A second trend that would be logical at this phase of Japan's economic development would be a marked increase in capital exports, tending in effect to soak up domestic savings as well as to bring the overall external accounts into better balance. It is now fairly clear that the Japanese economy has indeed been transformed from a capital-importing to a capital-exporting economy. Signs of that shift are already evident in the statistics of the long-term capital account. In the first quarter (January–March) of 1978, Japan's long-term capital account showed a surplus of $0.34 billion while the statistics for the second, third and fourth quarters of 1978 registered deficits of $3.6, $4.1 and $5.0 billion respectively. The JERC's five-year projection of the Japanese economy forecasts a deficit in the long-term capital account of about ten billion dollars annually, reflecting the net outflow of long-term capital from Japan. This capital outflow will take the following forms: (1) increased development aid to the poorer countries; (2) lending by Japanese banks to foreign customers; (3) issuance of bonds in the Japanese capital markets by foreign governments and enterprises; and (4) direct foreign investment by Japanese companies. Ten billion dollars of capital exports will roughly correspond to one percent of Japan's GNP, a relatively low figure when compared with the past experiences of the United Kingdom or the United States. At one point during the interwar period, for example, Great Britain exported capital amounting to almost six percent of its GNP. And, during the Marshall Plan period after World War II, U.S. net capital outflows accounted for about four percent of U.S. GNP.

In short, the Japanese economy is in basic transition both in domestic terms and in terms of its external relations. But—and this gets back to my earlier point about demanding change more

[5] JERC, *Quarterly Forecast of Japan's Economy*, May 1979.

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rapidly than is conceivable—it is unrealistic to expect a rapid reduction in the current accounts surplus in the near future, although there will be fluctuations based on short-term business cycle movements.

It should be kept in mind that apart from these domestic structural factors the high rate of inflation in the United States and its low productivity growth might also contribute to Japan's current account surplus, in particular in the bilateral trade account between the United States and Japan. At the present time, Japanese exports to the United States are leveling off (in the case of cars, actually declining in terms of units sold), while Japan's imports from the United States are sharply increasing.[6] This kind of short-term improvement in the bilateral trade balance, however, cannot deal with the underlying problem. As James Abegglen has noted: "To the extent the United States tends to consume, rather than save and invest, it will consistently lose competitive advantage in the higher value-added sectors where trade among the advanced economies is concentrating."[7] While Japan's economy is evolving in the direction of the American one, it remains predominantly a production-oriented economy.

The same point bears directly on the American perception that Japan's economy is unfairly closed to the exports of other countries through both visible and invisible trade barriers which prevent cheaper products from flowing into the domestic market. The result can be seen in the high prices Japanese consumers are forced to pay for imports even though the country has large reserves of foreign exchange.

Unquestionably, this American complaint has some basis. As a latecomer to the industrial world, Japan has had government policies designed to encourage and protect both industry and agriculture. Although there has been substantial progress in reducing trade barriers in recent years, old habits persist, and behind many government positions lies the reality that the ruling Liberal Democratic Party now has only a precariously slim margin over the opposition parties; it does not have the perfect control of the economy suggested by the catch-phrase "Japan, Incorporated" and must weigh very carefully the consequences of liberalizing imports, notably in such currently sensitive areas as agriculture or

[6] January 1979 exports to the United States were up 1.0 percent and imports up 45.2 percent compared with a year ago, and for February 1979 up 10.5 percent and 39.8 percent, respectively.

[7] Abegglen and Hout, *loc. cit.*, footnote 3, p. 166.

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the procurement of state corporations.

But apart from such specific areas of political sensitivity—which have their counterparts in the United States and in Europe—the underlying balance of popular pressures in Japan is different from that in the United States, where consumer interest in low prices plays a much greater role than in Japan. Today there are signs of change in Japan—such as the recent protests raised by labor unions against the high cost of agricultural products. But until the basic transition to a consumer-oriented society has moved far enough to produce strong domestic pressure for removing trade barriers, governments in Japan will find it politically difficult to move as far as Americans and Europeans demand.

The second major category of American irritants toward Japan—concerning Japan's "free ride" on defense matters—is of course partly economic but also heavily strategic in its implications. The complaint that Japanese expenditures are too low and that Japan's security is too dependent on the American taxpayer sometimes leads to an argument that Japan's economic performance has been as strong as it has been in large part because of the absence of a significant defense burden. It is true that Japan's defense budget has consistently been less than one percent of GNP (currently it is about ten billion dollars), whereas that of the United States stands currently at $120 billion, or six percent of GNP, and has in the past been a still higher percentage.[8] Undoubtedly, Japan has been able to devote to economic investment some substantial part of the resources not employed for defense; but at the same time, Japan has not had the benefit of some of the civilian economic "spin-offs" that the United States has had, for example, in aircraft and electronics development.

But the real question is one of strategic wisdom. Most senior American officials familiar with East Asia over the years have seemed to share the conclusion that any substantial increase in defense expenditures by Japan—which by the way already has the eighth largest defense budget in the world in absolute terms—would be upsetting to the stability and military balance in East Asia, and thus actually contrary to American interests. And in Japan itself, although discussion of defense issues has become more open in recent years, and support for present Self-Defense

[8] Actually, Japan's defense budget does not include some expenditures that are classified as defense expenditures in the uniform NATO estimates procedure. Under that procedure, a recent calculation is that Japan's defense expenditures would now be 50 percent higher than the figures and percentages given here.

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Forces more widespread, there remains very substantial opposition to any large increase in military spending and to the more assertive and nationalistic policies that would almost necessarily be implied by such increases. At the same time, it is true that recent changes in the international environment have defused domestic political sensitivity toward the military alliance with the United States—especially China's recent change in policy toward welcoming the U.S.-Japan Security Pact. With Japan's GNP now almost equal to that of the United States on a per capita basis, one reasonable measure to reduce tensions and share the cost of defense more fairly might be for Japan to assume a larger share of the burden of U.S. military expenditures incurred in the area of Japan and related to Japan's defense.

Next let us turn to the problems surrounding Japan's development assistance to poorer countries. In terms of official development assistance (ODA), Japan's contribution has been rather modest as a percentage of GNP. In 1977 it was 0.21 percent. While this figure is not much different from the assistance given by the United States (0.22 percent of GNP) and West Germany (0.27 percent), it is far below the international target figure of 0.7 percent of GNP and even below the 0.30 percent average achieved by the member countries of the Development Assistance Committee (DAC) of the OECD. In absolute terms, Japan's ODA contribution in 1977 was $1.42 billion. This places Japan third, behind the United States ($4.16 billion) and France ($2.27 billion).

Recent events, however, point toward an increase in the Japanese figure. At the Bonn summit meeting in July 1978, then Prime Minister Takeo Fukuda promised to double Japan's ODA in three years. After some bureaucratic haggling within the government, it was decided that Japan's ODA of 1977, measured in U.S. dollar terms, would be doubled by 1980. Now it appears that even that ambitious target will be surpassed. Because ODA figures are calculated on the basis of disbursement and not the commitment base, the appreciation of the yen exchange rate, the sharp increase in the aid commitment and an accelerated disbursement in recent years are likely to combine to produce a doubling of Japan's ODA by 1979, one year ahead of schedule. If the Japanese government continues expanding aid to attain, say, another doubling in three to five years, then Japan's absolute ODA figure may exceed that of the United States and make Japan the top contributor of ODA among DAC members.

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In view of the enormous capital requirements of the developing countries for increased food production, energy resource development, expanded transportation and communications networks, improved urban facilities, etc., it might be desirable to have Japan continue its high rate of saving in order to fill these needs. Both Japan and West Germany are well placed to take the lead in this regard. Indeed, such an initiative on the part of Japan would contribute not only to the material betterment of the developing countries but also to the improvement of Japan's international image and, in an indirect way, to an easing of tensions between the United States and Japan. Moreover, Japanese aid should over a period of time be less and less tied to Japanese procurement sources (a problem, again, common to all donor countries); thus it would constitute a genuine form of capital export tending to siphon off domestic savings and reduce the imbalance that now contributes structurally to Japan's current account surplus. In short, a leading role in international aid fits Japan's current and future situation in somewhat the same way that a similar role fitted the situation of the American economy in the early postwar period.

The third category of irritations I have identified relates to present and future competition in high-technology industries, and the issue of whether such industries are being unfairly subsidized in Japan. On the basic issue of Japanese policy, I must be totally frank. The Japanese government has announced on a number of occasions its policy of encouraging the development of knowledge-intensive industries and the high-technology sector. This is an absolutely necessary policy in view of Japan's paucity of natural resources—88 percent of our energy needs, more than 60 percent of grain consumption, and virtually 100 percent of such vital minerals as iron ore, bauxite and copper are imported. Given this almost total dependence and the instability of foreign supplies, the development of high-technology, knowledge-intensive industries is, for Japan, a matter of life or death. The development of this sector is also necessitated by the rapid industrial progress, and consequent competition in more traditional labor-intensive industries, that has been evident in other Asian countries such as South Korea and Hong Kong—and possibly China in the future.

The issue of government subsidies is perhaps more complicated. For example, the previously mentioned Jones Report charges that Japanese government support for research and development in some areas, notably those involved with Very Large Scale Inte-

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grated Circuits, has amounted to an "unfair" subsidy. But the problem, from the Japanese standpoint, is that the costs and risks of this kind of research are now too great to be assumed by private concerns; in this respect, and perhaps in others as well, they are analogous to the research and development expenditures for defense-related projects that have traditionally been funded initially by the American government—leading in many cases to widespread later civilian sales. What is "unfair" in this kind of situation is surely very hard to define; to Japanese conscious of the vulnerability and resource-dependency of their economy, expenditures designed to permit that economy to adapt and remain competitive, while accommodating the growth and progress of other Asian nations, take on a very substantial national security character.[9]

This brings us directly to the problem of the rapidly industrializing nations and their increasing exports of manufactured goods. In Europe these countries are known as NICs (newly industrializing countries) whereas in the United States they are sometimes referred to as the "new Japans," as we saw earlier in the Jones Report. In any event, the emergence of these countries is often interpreted as an inimical and disturbing element in the world economy, particularly for the industrialized nations. This interpretation is based on the low wage structures found in these economies, and it reminds many Japanese of the time when, during the 1930s, Japan's rapidly expanding exports of cheap cotton textiles and other manufactures were characterized as "sweat shop exports."

Because the per capita GNP of these countries is still quite low, it is natural that their average wage rate is also low. Capitalizing on their comparative advantage over high-wage countries, poorer countries start exporting a variety of labor-intensive manufactures. But it is rather biased and misleading to characterize such exports as "unfair." In time the exporting countries' income and wages will rise, and the comparative advantage will shift—as part of a natural process I call the "dynamic change in the international division of labor."[10]

[9] A recent estimate puts Japan's research and development effort in 1976, official and private, at about 1.7 percent of GNP, slightly lower than the 2.2 percent figure estimated for the United States in 1977.

[10] I develop this idea in "Dynamic Division of Labor and the International Order," in Antony J. Dolan and Jan Van Ettinger, eds., *Partners in Tomorrow: Strategies for a New International Order*, New York: E. P. Dutton, 1978.

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As early as the 1930s a Japanese professor of economics, Kaname Akamatsu, invented a theory concerning the stages of development. Literally translated from the Japanese, it is called "The Flying Geese Development Theory." In brief outline the theory explains that a country (1) starts as an exporter of primary products and an importer of simple manufactured goods. It then (2) becomes an exporter of these simple manufactured goods as it (3) begins importing more sophisticated industrial products. Finally, (4) it begins exporting these advanced products. This development process takes place at different times among different countries, thus creating a changing international division of labor.

This process is an inevitable part of the development of the world economy. No measure can stop it artificially and the advanced industrial nations would be well advised to adapt themselves to it as best they can. The newly industrializing countries also have responsibilities. They must proceed at a gradual pace in order to allow time for the advanced nations to adjust. But in the end it cannot be denied that the basic pattern of a changing international division of labor will continue into the future.

One final point of anxiety regarding the newly developing nations concerns the so-called boomerang effect, the process by which an industrialized country exports capital, technology and advanced equipment to a newly developing country and eventually makes a competitor of the latter. It is true that over time certain sectors of industry in the advanced countries will lose competitiveness to the products of the newly developing nations. But, at the same time, increased competitiveness will bring with it increases in foreign exchange earnings and purchasing power in the poorer nations, and this will contribute to expanded trade and an increase in the entire global product and income.

It is equally clear that the evolution of this process will create problems for the advanced nations where growing rigidity in the social, economic and industrial structures will prevent smooth and rapid adjustment. This rigidity is aggravated by the onset of a period of low growth. The task before the industrial nations, including the United States, Europe and Japan, is to work out policies to provide for reasonable levels of employment even in a period of relatively slow economic growth.

These last paragraphs may seem to have strayed from our original concern with bilateral economic tensions between the United States and Japan. But it is important to bear in mind that our bilateral economic problems occur in a wider international

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context, and in fact relate to the ways each of our two countries—along with the other advanced industrialized countries—are adapting to the basic and far-reaching changes in the worldwide division of labor that have been underway for the past decade or more, and that seem likely to speed up in the future.

As for the Japanese economy itself, I return to the point that its evolution over the next few years likewise contains basic problems of structure as well as history and habit. Changes in the economic structure of Japan should, over time, tend to reduce some of the frictions that now exist in bilateral dealings with the United States. But I am bound to note also that, if the two nations should find themselves out of step in their efforts to cope with changes in the international economic structure, new and more serious frictions may arise in this respect. Japan feels itself bound to move forward in the high-technology area, as a necessity if it is to remain economically healthy.

IV

Now let us turn to the question of China. Early this year I had the opportunity to visit Peking to discuss economic planning and related problems with Chinese officials. Previously, in February 1978, the Chinese government had adopted a ten-year Development Plan for the National Economy which targets a four-point modernization of agriculture, industry, technology and defense. The plan, which was announced in a statement by Chairman Hua Guofeng, aims at achieving a four to five percent annual growth rate in agriculture and a growth of over ten percent in industry during the ten-year period from 1976 to 1985. The estimated total investment required for this plan is one trillion yuan (approximately $600 billion). The plan includes a target for steel production of 60 million tons in 1985 and calls for the construction of 120 large industrial projects.

At the same time that this ambitious plan was announced, the Chinese also introduced sweeping changes in their policy toward the outside world. However, because many of these changes and shifts in policy were so fundamental, and because they came so suddenly, there are a number of outside observers who doubt the permanence and reliability of this new course. Some even doubt the stability of the present regime. However, based on some of the key documents published by the Chinese government and what the author observed in Peking, it is my judgment that the present course will continue. Even if there are periodic shifts and variations

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from time to time, the basic task of rapid modernization will be pursued.

One of the major problems facing the Chinese in their quest for modernization has been the quality of leadership. The leadership qualities required during revolution are different from those needed for construction. For construction and modernization, and for the preparation and implementation of the plans and projects, technocrats such as planners, statisticians and efficient administrators are absolutely essential. Unfortunately these represent precisely the skills which have been neglected during the past decade or so. Under the previous revolutionary leadership these technocrats were considered anti-revolutionary or lacking in revolutionary spirit, and many people possessing such skills were purged to the villages. Intellectuals and scholars, who are needed in the new modernization effort, were downgraded and many suffered through a very difficult time. Chinese leaders now openly admit that 15 years were wasted as a result of policies which denigrated administrative and technocratic skill. Now, however, these people are coming back to the center and they are busy establishing the governmental structure which will be needed to carry out the modernization.

The organizational problems for the realization of this plan are also immense. The Chinese are aware of this. In an article which appeared in the November issues of *Peking Review*, for example, Hu Chiao-mu, President of the Chinese Academy of Social Sciences, evaluated some of the basic problems likely to be encountered in carrying out the plan and the theoretical base for the modernization policy.[11]

Some of the problems the Chinese are likely to face in implementing the modernization plan include a severe shortage of trained and experienced manpower at all levels of government and enterprise, and a need to improve greatly worker efficiency and to increase the quality of work at all levels of production. And, in quantitative terms, China has a serious shortage of domestic savings for investment, as well as a serious shortage of the foreign exchange necessary for the purchase of modern equipment and know-how from abroad. The Japan Economic Research Center has recently conducted a comprehensive study of the Chinese economy which includes an analysis of the Chinese savings and investment balance. The tentative conclusion of this

[11] Hu Chiao-mu, "Observe Economic Law, Speed Up the Four Modernizations," *Peking Review*, November 10, 17 and 24, 1978.

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study is that China will experience a capital shortage of around $200 billion over the remaining eight years of the plan if it is to be implemented fully. This corresponds to about one-third of the total investment called for in the plan.[12]

In attempting to deal with this shortage, the policy alternatives available to Chinese leaders are likely to be: (1) to increase efficiency in the use of capital; (2) to raise the level of domestic savings; (3) to borrow from abroad; (4) to lower the plan's targets, particularly in heavy industries; (5) a combination of the above four alternatives.

It should be noted that despite these problems, in certain respects China is well prepared to begin the modernization effort. In particular, the far-reaching social reforms carried out after the revolution have provided an egalitarian base for the work ahead. In a sense China has succeeded in distributing poverty equally—not wealth. Everyone is equally poor. But the basic necessities of life such as food, shelter, primary education and medical care are available to the majority of the population. If China succeeds in carrying out its modernization without jeopardizing this egalitarian society, it will be a unique accomplishment in human history.

At the moment, the Chinese government seems to be in the process of reexamining the modernization plan to make it more realistic and feasible. In the beginning the planners may have underestimated the costs involved, particularly the foreign exchange costs. At the same time, the Chinese authorities may have over-encouraged the ministries and enterprises involved to produce their respective modernization plans. The result was a rush of activity with many of these ministries and enterprises approaching foreign suppliers to discuss procurement and other projects. Now that the government has begun a reappraisal, many outside observers doubt the intent and seriousness of the entire Chinese modernization effort. Based on the various announcements by the Chinese government and interviews given by the leaders, it is clear that the Chinese are aware of this problem and are making an effort to allay such misgivings.

In the post-revolution period, China has succeeded in establishing an organized agriculture and in developing small- and medium-scale industries. But experience in the building of modern, large-scale industries seems to be insufficient. As a result, the Chinese are now setting aside the first two years of the plan as a preparatory period during which time they hope to absorb foreign

[12] Japan Economic Research Center, *Study on Japan-China Economic Relations*, January 1979.

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know-how, technology and management techniques as quickly as possible.

Until recently, the Chinese government seemed to believe that the export of China's abundant natural resources would provide all the foreign exchange needed for the importation of modern equipment. For example, at one point the Chinese offered to vastly increase the export of oil, coal and other natural resources to Japan in order to pay for the import of machinery. However, it is likely that if they succeed in modernizing their economy, domestic consumption of oil will inevitably increase. In addition, further pressure on the foreign exchange reserves will occur as a result of China's likely need to continue importing sizable amounts of food grains, steel, etc., for some years to come. In view of the above it will be necessary for China to explore the possibility of stepping up its export of manufactures.

The volume of Chinese foreign trade continues to be relatively small, although it is estimated that a 40 percent increase in the value of trade was registered last year. Chinese exports and imports in 1977 were $6.8 billion and $6.3 billion respectively. These figures are small when compared with the exports of South Korea ($10.05 billion) and Taiwan ($9.35 billion). Although Japan accounts for 20.9 percent of China's exports and 33.9 percent of her imports, China's share in Japan's foreign trade in 1977 was only 2.4 percent for exports and 2.2 percent for imports.

Some Asian countries express concern over the fact that China may soon become a serious competitor with their labor-intensive manufactured goods industries. Basically, however, China will remain an inward-looking country economically and, partly because of its political system, exports of manufactured goods may not increase very rapidly even though the government recognizes the need for them to do so. Moreover, larger exports from China when they do occur will result in larger imports as well, and this will contribute to the general expansion of trade in Asia and the world at large. In addition, more frequent contact with the outside world through foreign trade will make China and the Chinese less mysterious and will facilitate a better understanding with foreign nations.

In short, China's industrialization and modernization will move forward. Even if the current ten-year plan is overly ambitious (as admitted recently by Chinese officials),[13] the generally realistic

[13] *The People's Daily* of February 24, 1979 carries an editorial to this effect titled "Emancipate Ideas and Attain General Balance."

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and pragmatic approach to policy issues shown by the new leadership will ensure that China will eventually push its modernization plans forward. By the end of this century, Chinese production of steel and other industrial products will rank it with the United States, the Soviet Union, Japan, and West Germany, even though per capita productivity and income will remain far below that of the other industrial countries because of the immense size of its population.

V

On the basis of this analysis, it seems clear that the unfolding of China's economic programs over the next 20 years should be one of the great constructive developments in East Asian and, indeed, in world history. What are its implications for the rest of East Asia, and what role can be played by Japan, the United States and other industrial countries?

I have just noted that China seems unlikely to be a competitive threat to the industrializing countries of East Asia. Concern is also expressed in some Asian countries that if Japan directs an increasingly large share of its capital, including concessional loans, to China, then there will be substantially less available to other Asian nations. However, in view of China's limited absorptive capacity for foreign loans and the very cautious attitude China is likely to adopt in borrowing from abroad, Japan's ability to supply capital to the rest of the world will not be seriously affected.

At the same time, the modernization of China, with its population of 900 million, is an enormous task that will require the participation of all industrial countries. Through the enlarged economic ties formalized most recently in the agreements of early 1978, Japan expects to play a significant role, and the Chinese government has already turned to Japanese, including the present author, for advice on its current ten-year program running to 1985.[14] Proximity as well as deep historical connections have naturally stimulated Japan's interest in effective cooperation with China.

Yet, as others have noted, "China's socialist system of government and economy does not lend itself readily to the incentive-driven industrial expansion that Japan obtained."[15] China will undoubtedly wish to retain its own system, and will wish at the

[14] For an interview with the author on this subject, see *The New York Times,* January 9, 1979, p. D3.

[15] *Ibid.*, comments by the writer of the article.

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same time to diversify its sources of modern equipment. American and European interests—and in some cases governments acting directly—are already deeply engaged in developing greater economic ties with China. There should be ample room for all to play useful parts.

VI

As pointed out at the beginning of this article, the Western Pacific region, including China, will be the most dynamic part of the world during the last part of this century. The United States, facing both the Atlantic and the Pacific, will have to measure the relative importance of these two sides of the country. Japan, for many years to come, will play a crucial economic and political role in the region.

It would be unfortunate for both the United States and Japan if our two countries were to drift apart because of continuing conflicts over economic issues. If the previously mentioned economic irritations between the two countries continue, they may damage the underlying political, social and security relationship as well. Imagine the case of a Japan, grown frustrated under repeated American shocks and pressures, becoming hostile toward that country. Such a development could endanger the very security of the United States itself. It would also mean the complete bankruptcy and ruin of the Japanese economy. This would have wide-ranging political repercussions not only in Japan but in other Asian countries as well. In a letter to *The New York Times,* Mr. J. Owen Zurhellen, Jr., former Deputy Assistant Secretary of State for East Asian and Pacific Affairs (1975–76) and U.S. Ambassador to Surinam, recently wrote concerning the current U.S.-Japan trade dispute:

> American negotiators must be firm and must work for reasonable trade terms with Japan. If we exceed those bounds and deal with Japan as an ill-intentioned malefactor while courting China with credits and most-favored-nation treatment, then we run the grave risk of convincing our principal ally and support in East Asia that we place a higher value on a vivacious and captivating new friend than we do on an old stalwart who, however stolid and sometimes hard to work with, has stood firmly with us on the world stage and with whom we have a set of relationships, including security as well as political and commercial, of fundamental national importance.[16]

The present author does not agree with all that is said here because he feels that it is crucial for the stability of the Pacific region for the United States to maintain friendly relations with

[16] *The New York Times*, February 28, 1979, p. A22.

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both China and Japan. Nevertheless, it is clear that a falling-out between the United States and Japan would have grave repercussions.

In recent years a new concept called "comprehensive security" has gained wide currency among Japanese. This concept is based on the notion that Japan's security is vulnerable in energy and food supply as well as in military terms. Hence the need for "comprehensive security measures" which include not only the improvement of military capability but also research efforts for the advancement of science and technology, stockpiling of food and energy supplies and assistance to developing countries. These measures are seen as contributing to the overall security of the nation.

Japan has a highly organized and tightly compacted economy. (Japan's per acre GNP, for example, is about ten times that of the United States.) Thus, a few hydrogen bombs could completely devastate the entire country. Under these circumstances the best strategy for Japan is to avoid any possible military attack by following a prudent diplomatic course.

However, even without a direct military attack on Japanese territory the severing of Japan's energy and food supply lines could easily paralyze the nation. Thus, one aspect of the comprehensive security measures, in addition to the stockpiling of supplies, calls for the advancement of science and technology. This will give Japan some bargaining power and enable her to guarantee the imports of food, energy and other raw materials necessary for her survival.

The security of Japan is also fundamentally dependent upon Japan's relationship with the United States. In thinking about this relationship it is necessary to stress its broad social, political and military, as well as economic foundations. Stress on these broad foundations will keep us from being overly distracted by the day-to-day business and economic problems that catch our attention. Senator Sam Nunn wrote in a recent report to the Congress as follows: "Economic problems between Japan and the United States are also of great concern in both nations. [But] they should not be permitted to disrupt United States-Japanese security relations. Both the United States and Japan must ensure that resolution of trade problems does no permanent damage to security relations."[17]

[17] "United States-Japan Security Relationship—The Key to East Asian Security and Stability," Report of the Pacific Study Group to the Committee on Armed Services, United States Senate, March 22, 1979, Washington, D.C.

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If the United States and Japan concentrate too heavily on current bilateral economic issues and overlook the comprehensive long-term relationship, there is a danger of our two nations moving onto a collision course. Americans must keep in mind that, for Japan, pressure from abroad is welcome if it is for the sake of broader regional and global interests, but not if it is for the narrow and sectoral interests of one country. Japan, on the other hand, must understand that her domestic policies have far-reaching repercussions on her international relations.

The visit of Japanese Prime Minister Ohira to Washington in early May seems to have served to dispel some of the misgivings on both sides and helped the two peoples to recognize their long-term and broad interests in the relationship. The Joint Communiqué on the occasion of that visit set an appropriate keynote: "Productive Partnership for the 1980s."

As for relations with China, the following remarks made by Prime Minister Ohira at the National Press Club, Washington, D.C., on May 3, 1979 are relevant: "The development of friendly relations between Japan and China, as between the United States and China, has broadened the foundation for our Asian policies. Japan will act in close concert with the United States and Western Europe to extend appropriate cooperation to China's economic development efforts."

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Richard H. Ullman

SALVAGING AMERICA'S RHODESIAN POLICY

It scarcely requires congressional votes of no confidence or a change of administrations in London to signal that time has run out on the Rhodesian policy the American and British governments have pursued so doggedly for more than two years. There now sits in Salisbury a black Prime Minister, Methodist Bishop Abel Muzorewa, the resounding victor in April's election in which nearly two-thirds of his country's adult population—for the first time—cast ballots. The election was indeed far from perfect. It was conducted on the basis of a constitution which had been approved in a referendum excluding blacks. It excluded major claimants for power. But its results underline the fact that whatever the ideal political preferences of Rhodesia's people, most of them want peace most of all, and a majority of them are prepared to rest their hopes on Bishop Muzorewa as the best available means of bringing it about.

Western diplomacy must now adjust to this reality. Yet Washington and London should do so not by merely lifting the economic sanctions the United Nations imposed in 1966 on Ian Smith's breakaway Rhodesian regime. Rather, they should use the prospective removal of sanctions as a means of pushing the Muzorewa government toward an accommodation with its enemies. In addition, they should deflect Soviet involvement with Rhodesia's black neighbors through substantial economic and military assistance to these "front-line states" and work to keep South Africa out of the Rhodesian war.

II

Along with its new, predominantly black government, the former British colony of Southern Rhodesia now has the new name of Zimbabwe-Rhodesia. That awkward amalgam of quintessentially African and English syllables hints at the substance behind the facade. Protected by the "entrenched clauses" of the

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new constitution, the four-percent minority of whites still retains substantial control over the levers of power. And the civil war that Ian Smith hoped to stem when he worked out the so-called internal settlement of March 1978 with Muzorewa and two other black politicians continues unabated; it is as if Zimbabwe, the site of a long-vanished African empire whose archaeological remnants have come to symbolize genuine black rule, were warring with Rhodesia, the paradigm settler state.

End the war or not, the internal settlement and the general elections 13 months later crystallized opposition to existing Anglo-American policy both in the United States and the United Kingdom. Conservatives in both countries argue that the policy's emphasis on internationally supervised elections open to all contenders for power amounted to a tilt in favor of Joshua Nkomo and Robert Mugabe, the nationalist leaders who chose to continue the guerrilla war rather than accept the settlement offered by Ian Smith. Until May's British election, the Carter Administration could be sure of firm support from the Labour government in London. But Margaret Thatcher's Conservative Party was all but pledged to get rid of sanctions. Because the new Foreign Secretary, Lord Carrington, favors a more cautious approach than many of his colleagues, it is unlikely that the new government will take any drastic steps before August's biennial Commonwealth conference—this year in Lusaka, Zambia, of all potentially embarrassing places, with the Queen herself due to be present. However, given the strength of Conservative Party sentiments, delay beyond November, when Parliament must vote on its annual legislation renewing sanctions, is also unlikely, at least on that issue.

In fact, the issue of sanctions is now more symbolic than real, for sanctions have been only partially effective. Although foreign trade and investment have diminished, the shrewd white Rhodesians have managed to market their country's chrome and tobacco, and to get the foreign goods they have needed—including, especially, oil and weapons. Lifting sanctions now would make foreign sales and purchases easier, but alone would have no major impact upon Rhodesia's economy. Although that economy has been badly hurt in the past few years, it is the escalating war and not sanctions that has done the damage. Not only has the war been enormously costly to fight—over one million dollars per day recently, a vast sum for a small country—but it has frightened off foreign investors and, most harmful of all, has caused a continuing exodus of skilled white managers and technicians. Therefore, ending sanctions would make a real difference to Rhodesia's

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situation only if accompanied by substantial Western economic aid and a concerted Western campaign to gather diplomatic support for the Muzorewa government.

Yet the symbolism of lifting sanctions, even if other forms of Western support were lacking, would scarcely be unimportant politically: countries lifting sanctions would by that very gesture indicate that they are content with changes that give only the trappings of office to representatives of the 96-percent black majority while preserving white power through a constitution that gives unique protection to white economic interests, and security to white jobs in the police, judiciary, and civil and military services. For the United States and Great Britain, the mere act of removing sanctions would thus signify their departure from the basic principle that has been at the core of their Rhodesian policy: that the pressure should not be relaxed until there is genuine majority rule. Therefore, lifting sanctions under present circumstances would outrage nearly all other African governments. Far from wishing to relax the pressure on the Salisbury regime, most African states would like to strengthen it.

III

Meanwhile, as the Carter Administration attempts to salvage what remains of its Rhodesian policy, Bishop Muzorewa faces a policy choice perhaps even more important for the future of southern Africa: whether to enter into an intensified alliance between his country and South Africa. The Republic has, of course, been crucial to Rhodesia's survival ever since the beginning of sanctions. It has been a source of or an entrepôt for arms, oil and other vital goods. Until the internal settlement, however, Pretoria seemed undecided as to how much of a commitment to make to Rhodesia. But since then, there have been reports of South African military assistance—discreetly rendered but nevertheless extending even to limited combat engagements by South African aircraft and helicopters with their markings obscured. And since Muzorewa's election victory, South African leaders have openly implied that much more extensive help could be his for the asking—enough, perhaps, to turn the tide in the grim and bloody civil war away from the Patriotic Front guerrillas.

If Muzorewa accepts major overt South African aid—no matter what the terms—he may gain a respite from the formidable pressures of that war, but most of the world will rightly regard his country as a mere satellite of the only state whose entire political structure rests on explicitly racial barriers. That would irrevocably

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divide Zimbabwe-Rhodesia from nearly all the rest of black Africa. It would make more remote than ever a negotiated settlement to the civil war. And although it would forestall for the moment Rhodesia's day of violent reckoning, it is unlikely to put that day off forever.

If the South Africans have their way and create the "fortress southern Africa" that government spokesmen in Pretoria now admit is their objective, the Republic's defense perimeter would then move from the Limpopo to the Zambezi River. It would enclose not only Zimbabwe-Rhodesia but a soon-to-be formally independent, yet totally dependent Namibia, together with the three former British protectorates of Botswana, Lesotho and Swaziland that are now—because of geography—also dependent on South Africa. Rhodesia's white-led but largely black army would be buttressed with white South African technicians, advisers and perhaps also pilots. South Africa's powerful armed forces would share the logistical burden of ferrying commandos to assault Patriotic Front camps in Zambia and Mozambique, just as South Africa's forces themselves now routinely strike deep into Angola at the camps of the South West African People's Organization (SWAPO), the insurgent group seeking power in Namibia. Gone would be any but token efforts to find political solutions to either the Rhodesian or Namibian civil wars. Muzorewa's position within his own country and his standing abroad would be no better than that of the mixed-race coalition, dominated by whites, which is likely soon to govern Namibia by virtue of its victory in elections run by South Africa last fall.

IV

For Western governments, and especially for the Carter Administration, the most serious consequence of large-scale South African entry into the Rhodesian war would be the effect on the "front-line" states: Zambia, Mozambique and Botswana—the countries immediately surrounding Rhodesia—plus Tanzania and Angola at somewhat greater distance. At various times, all have given support to the guerrilla leaders and their forces, and refuge to their civilian followers. Zambia and Mozambique have been most directly involved, as territorial bases for the armies of Joshua Nkomo and Robert Mugabe. These two countries have been the targets of punishing attacks by the Rhodesian air force and army over the last year or so, against which they have seemed almost defenseless. Rhodesian commandos have destroyed guerrilla

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camps, hospitals and schools—and killed local citizens as well—while Rhodesian jets overhead maintained total control of the air.

With South African assistance and perhaps even active participation, Rhodesia's cross-border operations would be still more punishing—unless the front-line governments themselves get outside military help. Their most urgent need is for modern, effective air defenses, smaller versions of the system the Soviet Union provided North Vietnam with which to counter American bombing attacks. That aid might come from the West. It is already beginning to come from the Soviet Union and from Moscow's allies, such as Cuba, and there is every likelihood that Soviet and Cuban assistance will increase dramatically. Given Congressional sensitivities in the United States, the Soviet leadership might well prefer to forestall any escalation of the Rhodesian conflict at least until the SALT II treaty is disposed of—one way or another—by the Senate. But a substantial increase in South African participation in the war, accompanied by appeals for help from the front-line governments, would make it difficult for Moscow to keep its efforts low key.

It should be recalled that it was only after large-scale South African intervention in Angola's civil war that the Soviet Union and Cuba vastly enlarged their own intervention on the side of the government of President Agostinho Neto. Especially if South African help to Rhodesia were accompanied by a lifting of sanctions by the United States and the United Kingdom, vastly stepped-up Soviet bloc support might seem to the front-line governments as the best of a set of bad alternatives. And Moscow, Havana and East Berlin (the East Germans have been more active in Africa than the other East Europeans) would probably be ready to provide it. In doing so, they would go far toward turning a conflict between South Africa and its black neighbors into a confrontation between East and West.

That confrontation is precisely what the Carter Administration has sought to avoid. The President and his advisers—particularly those most involved with African issues—have frequently deplored Soviet and Cuban military activities in Africa, but in their public assessments they have generally tried to relate those activities to specific circumstances in individual countries, and they have avoided portraying them as a frontal challenge to the West. They can, of course, continue to take this line even if the Soviet and Cuban military presence in the front-line states substantially increases. The facts of the situation would justify their doing so: Moscow and its allies, after all, would be coming to the aid of

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states indisputably under attack. But there will be politically powerful voices within the United States and other Western societies that will depict a stepped-up communist effort in southern Africa as a direct threat to Western interests. And they will call for an assertive Western response. Beyond the lifting of sanctions, this might extend to support for economic and eventually even military aid to Zimbabwe-Rhodesia.

V

Unless a sustained effort is made to prevent increased Soviet involvement, voices calling for assertiveness are likely to prevail. American and British policy on Rhodesia has not been popular even among some officials of the two governments, much less among their wider publics. It has been based on subtleties not easy to convey. Its constant theme has been a refusal to recognize any political settlement that did not have the support of all important Rhodesian black political figures—including, of course, Nkomo and Mugabe. Its premise was that such a partial settlement could not end the war. Nor would it have the support of most other African states. This is significant not only for bilateral U.S. relations with African nations, but also because at least tacit concurrence by Zambia and Mozambique in any Rhodesian outcome is basic to ending the war.

Domestic critics on both sides of the Atlantic, however, equated the British-American policy with support for the guerrillas, who were themselves tainted not only by their insistent espousal of a violent solution, but by the very fact of their reliance on communist sources for arms and training. To these critics, the settlement reached in March 1978 between Ian Smith and the three "internal" black leaders was more than sufficient ground for recognition and lifting sanctions. It provided for an election based on universal suffrage where in the past only a handful of blacks had been allowed to vote, and it virtually guaranteed that the new government of Zimbabwe-Rhodesia would be black-led. For many of these critics, the fact that the new constitutional order would leave effective power in the hands of the four-percent white minority for at least ten more years was scarcely a disadvantage. Had not virtually all African "independence constitutions" contained similar "entrenched" clauses? How else to assure stability and the continuation of a liberal economy?

Against these persistent voices, the arguments of American and British government spokesmen—that this is 1979, not 1964, and that the privileges retained by Rhodesia's whites are far more

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sweeping and more firmly entrenched than those of whites in other colonies when they reached independence under vastly more tranquil circumstances a generation ago—were easily lost in the clamor.

Now such reservations have been further smothered by the undeniably impressive nature of the April election results. The large turnout came despite guerrilla efforts to keep blacks from voting. And while a certain number undoubtedly went to the polls because their employers insisted on it, or as a result of pressure either from government police or the private security forces of the various black candidates, the landslide vote in favor of Muzorewa's party, the United African National Council, is widely seen both as a tacit endorsement of the internal settlement and as an expression of faith that the Bishop, once in office, can somehow end the war.

VI

It should now become a primary objective of Western policy to help him do so and yet remain free of South Africa's embrace. That is no easy task, for the West or for Muzorewa. Of all the leading black politicians on either side of the Zimbabwe struggle, Muzorewa is probably the least impressive. He is said to be indecisive. He is not a forceful or articulate speaker. Over the past year he has allowed himself to be stampeded by Smith and others into actions that were plainly ill-advised. Yet it should be remembered that the Bishop was also the leader of the massive and successful campaign among Rhodesian blacks to discredit the white-supremacist constitution that Ian Smith negotiated with Edward Heath's British government in 1971. Now his party has 51 of the 72 black seats in Zimbabwe-Rhodesia's new assembly (28 seats are reserved for whites). That is sufficient to make it possible for him to exert effective leadership—if he wishes to.

During the 14 months between the internal settlement and his taking office as Prime Minister, Muzorewa said repeatedly that he should not be judged on his record as merely one of four members—with Ian Smith and the two other "internal" black leaders—of the transitional government's executive council. Rather, he said, critics who condemned his acquiescence in measures he disliked, such as the perpetuation of racial barriers, should wait until he held office on the basis of a popular mandate. Then he would show his strength.

That time has come. The West should now ask the Bishop to demonstrate that he is really in charge, and it should do so as a

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condition of recognizing and supporting his government. Specifically, the West should ask four things of him.

First, he should make clear that he will press the new constitution of Zimbabwe-Rhodesia to its limits—and perhaps beyond—to ensure that blacks make rapid progress in gaining access to education, government jobs, good housing, and the best agricultural lands. This, of course, is what many critics have been asking of Muzorewa. It is essential, but so are the next three measures.

Second, he should halt Rhodesian attacks against neighboring states. Of all the leadership tasks that lie before Muzorewa, none is more important than making it evident that he controls the armed forces. The new constitution makes it impossible for the government to tamper with the tenure of the nearly all-white officer corps, or to promote blacks on any grounds but merit—and merit will be judged by a white-controlled promotion panel whose members also have tenure. But the constitution does not prevent the Prime Minister from exercizing broad direction over the ways the army and air force are used. During the year of transitional government, it was evident that Ian Smith did not permit his three black partners to take part in military planning, and Muzorewa was patently embarrassed by attacks on Zambia and Mozambique that took place without his prior knowledge or approval. The question now is whether he will have the courage to assert his personal authority over military affairs in the face of certain opposition from the armed services, and from the white members of the assembly and of his government.[1] It is highly encouraging that, in forming his government, the Bishop retained for himself the Ministries of Combined Operations and of Defense and gave the Law and Order portfolio to a black colleague. Moreover, he apparently did so against the wishes of Smith, who wanted these posts that are so crucial to the war effort to remain in white hands. If the attacks now persist, the West can only conclude that Muzorewa is merely a facade for continuing white power, or else that he has committed himself to an ultimately unwinnable war rather than opening up avenues toward its negotiated end. Either way, the case even for lifting sanctions, much less for recognition and support, will be undercut.

The third condition that Muzorewa should be asked to meet is that he should demonstrate clearly, as he has often asserted, that he is still willing to reach a political compromise with the guerrilla

[1] Under an agreement made before the April election, each major party receives cabinet posts in proportion to its assembly seats; in the initial cabinet, this provided Ian Smith's white Rhodesian Front with five portfolios of 17.

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leaders. That means being willing to agree to a new election, this time under British or U.N. supervision, in which Nkomo and Mugabe and their followers could take part. His recent strong electoral victory should give him the confidence to face another test. In the absence of a clear electoral result, Muzorewa should certainly not be expected to step aside in favor of either of the guerrilla leaders. But he should make clear that he stands ready to share power with them if that will end the war.

A fourth condition should be Muzorewa's rejection of South Africa's offer of an intensified alliance, whether overt or covert. Specifically that would mean refusing South African security forces permission to use the territory or air-space of Zimbabwe-Rhodesia, and accepting no more than current levels of military and economic assistance from Pretoria.

The conditions suggested here would scarcely be easy for Muzorewa to meet. Yet only if Zimbabwe-Rhodesia refuses close ties with South Africa and ceases to make war on its neighbors will it ever be accepted among other black African states, and induce them to cease their support of the guerrilla campaign. And these would surely be crucial first steps toward a political settlement of a civil war which otherwise will increasingly pit black against black. If the United States and other Western governments were not to insist on steps like these as conditions for lifting sanctions, they would in effect be acquiescing in South Africa's move to make Zimbabwe-Rhodesia a puppet state within its own defense perimeter.

VII

The act of lifting sanctions by the United States will in any event damage the goodwill the Carter Administration has built up among African governments by its principled opposition to the racist white regimes of southern Africa. And even requiring specific actions from the new government of Zimbabwe-Rhodesia as conditions would not be sufficient to salvage all the loss. Nevertheless, there are other measures the Administration could take which, when added to a conditional lifting of sanctions, might ease the impact and, in fact, provide a basis for a coherent, more solidly founded American policy in southern Africa.

First among them would be a program of substantial American economic and military assistance to the front-line states. The costs of maintaining sanctions against Rhodesia, and of running camps for Rhodesian refugees, have severely harmed the economies of all the front-line states, but especially those of Zambia, Mozambique

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and Tanzania. American aid to Zambia and Tanzania was once considerable. In recent years Congress has reduced it to little more than a trickle. Aid to Mozambique, because of its Marxist-oriented (but in fact staunchly independent) government has been nearly nonexistent. If there is an American interest in maintaining (or restoring) the economic health of these nations and retaining their goodwill—as there surely is—there is an irrefutable case for providing them with economic assistance.

The case for military assistance to the front-line governments is perhaps even stronger. There is no reason to leave to the Soviet Union and Cuba the political benefits that will come from providing Zambia and Mozambique with air defenses capable of repelling Rhodesian attacks. Such defenses are no easy undertaking, however. The Rhodesian air force may not fly the latest aircraft, but its tactics are sophisticated. If it receives help from South Africa, it will be even more formidable. Countering its assaults will be very costly. And the expensive radar, computers, guns, and missiles required must necessarily be accompanied by a substantial program to train local personnel in their use. Western technicians might be needed at the outset to man the complicated equipment. Congress—and the British Parliament and other legislatures if the costs are shared—will surely gag at the magnitudes involved. But if Western countries fail to provide these defenses, their citizens can scarcely complain when the beleaguered governments in Lusaka and Maputo turn to the Soviet Union and its allies. For them it is not a matter of political preference; the survival of their regimes is at stake.

Aid to the most threatened front-line states should, indeed, be a major element of American policy in southern Africa regardless of events in Zimbabwe-Rhodesia. If there is an alliance between Salisbury and Pretoria, it will be more than ever necessary to help the states on their borders defend themselves against attacks. Building up the military capabilities of the front-line states will also give them the means to put pressure on the Patriotic Front. The guerrilla armies reportedly are as strong as or stronger than the forces of the countries in which they take refuge. They therefore can operate with relative impunity. If Bishop Muzorewa were to demonstrate that he is not simply a puppet of Ian Smith or of South Africa, and were to display real willingness to reach an accord with Joshua Nkomo and Robert Mugabe, Zambia and Mozambique might well wish to exert pressure on the guerrilla leaders and their forces to cooperate. Under present conditions they could not do so.

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The West should help the front-line states build up their defenses even if the government of Zimbabwe-Rhodesia should agree to cease attacking them. Stronger Zambian and Mozambican defenses would help to ensure the longevity of the undertaking. If Rhodesian commanders know they will pay a substantial price for violating neighboring territory, they will be less likely to press their political leaders to authorize attacks. And—it cannot be emphasized too strongly—the front-line leaders would have less need to turn to the Soviet Union and its allies.

Similar logic dictates that a new American approach to southern Africa accompanying conditional support for Muzorewa should contain one further element: a stepping up of political and economic pressure against South Africa proportional to that country's increased military and economic assistance to Zimbabwe-Rhodesia. In the case of air defenses for the front-line states, the goal of U.S. policy should be to raise the costs the Rhodesian armed forces must pay for attacking their neighbors. In the case of pressure on South Africa, the goal should be to persuade Pretoria that the costs of making good on its offer to Salisbury of a military alliance will be too high. This is not the place to discuss particular levers available to the West for increasing the pressure on South Africa. Among many levers available, however, are trade, investment and financial penalties.[2] The problem is choosing among them, and mustering the political will within Western societies to apply them.

American Senators and Congressmen periodically make much of their dislike of the white regime in South Africa, but few have shown enough concern about the important link between Pretoria and the course of events in Zimbabwe-Rhodesia. Indeed, the reason why sanctions were never more than partially effective in the first place is that the crucial funnel between Rhodesia and South Africa was never closed; the West was never willing to put sufficient pressure on South Africa—by curtailing oil shipments, for instance—to close it. Now that South Africa seems on the brink of much larger involvement in the war to its north, the case for persuasive countermeasures on the part of the West is even stronger.

VIII

The purpose of this discussion has been to suggest that there are ways in which the American and British governments can

[2] See Clyde Ferguson and William R. Cotter, "South Africa—What Is To Be Done," *Foreign Affairs*, January 1978, pp. 253–74.

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acknowledge the changes that have taken place both in Zimbabwe-Rhodesia and in their own domestic politics. Yet they can still move Zimbabwe toward the kind of society Muzorewa and his black colleagues in the new government say they would like to see, rather than the kind Ian Smith has induced them to settle for. Moreover, new approaches are now necessary in any case: the old Western policy is no longer useful. Merely maintaining sanctions while watching South Africa fight for Rhodesia and the Soviet Union and Cuba defend the front-line states can only bring an intensified civil war to Zimbabwe-Rhodesia and intensified cold war to the African continent. But merely lifting sanctions is equally shortsighted, for it would not be enough to induce the Salisbury government not to look toward Pretoria for help. And confronting the front-line states with South African-assisted Rhodesian forces which the West also seemed to support would make their governments even more likely to seek large-scale aid from Moscow and its allies.

As things have developed in southern Africa, the West has very few cards to play. One card is lifting sanctions and extending measured, conditional support to Bishop Muzorewa's government in Zimbabwe-Rhodesia. Another is effective support for the front-line states. A third is increased pressure on South Africa. Playing all three cards together certainly will not guarantee peaceful progress toward genuine majority rule in Zimbabwe-Rhodesia, nor will it ensure that Soviet influence in the region will not increase. But it is even more certain that playing the first card ineffectively by unconditionally lifting sanctions, as so many Senators and Congressmen have urged upon President Carter, will not do so.

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Thomas L. Neff
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NONPROLIFERATION STRATEGY IN A CHANGING NUCLEAR FUEL MARKET

The past two years have brought radical changes in the nonproliferation policies of the Unites States and a massive international study of proliferation issues. Impending commitments to new nuclear power technologies threaten to give many nations quick access to weapons-usable material, and this prospect has thrust the issue of power-cycle technology and materials, and their control, to the center of proliferation concerns. There is a general desire to achieve a proper balance between the possible benefits of new nuclear systems and the attendant proliferation risks. But there is disagreement, here and abroad, about how to strike this balance, and what policies are appropriate for achieving it.

The current focus of discussion of these issues is the International Nuclear Fuel Cycle Evaluation (INFCE), called for by the United States in 1977. More than 50 countries are participating in this effort, which is due to end in early 1980. In the interim, the U.S. Congress has acted on its own, setting new terms for U.S. participation in nuclear trade. Under the 1978 Nuclear Nonproliferation Act, new and strict conditions are placed on the technology activities of any nation that wants to buy nuclear goods and services from the United States. In effect, the Act is a unilateral step toward revision of the worldwide nonproliferation regime, with the intended source of leverage being the dominant role of the United States in the supply of uranium enrichment services, a vital step in the production of fuel for most reactors.

Serious questions are now emerging, however, as to whether this legislative formulation can fit within a viable and internationally

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acceptable nonproliferation regime. First, it appears increasingly unlikely that the INFCE deliberations will yield general agreement in support of the Act's tight restrictions on technology. Second, recent changes in world nuclear fuel markets have reduced drastically the control over nuclear fuel supply posited as the basis of U.S. leverage. Third, the Act—especially as seen abroad—does not provide the long-term flexibility and potential for accommodation that will be necessary to reconcile U.S. policy with the widely differing circumstances of other nations.

There is also a more general objection to present policy. To the extent that the United States uses fuel supply unilaterally to coerce policy abroad, it lessens other nations' assurance that they will have secure access to low-enriched uranium fuel. But unless uranium fuel supply is perceived as reliable, these nations will feel a strong incentive to acquire indigenous fuel-cycle facilities or proliferation-sensitive plutonium fuels. Such an inconsistency might be tenable in practice, but only if U.S. control were unchallenged: in the case of the fuel cycle, this will soon not be the case.

Thus there are important deficiencies in current U.S. policy, and the changes now evident in nuclear fuel markets will magnify the problem. To keep pace with events, U.S. policy will have to change, and this will probably call for further amendment of the Nonproliferation Act.

II

Hindsight often gives great clarity, and looking back we can see that there have always been, in theory, three paths that could be followed in dealing with the weapons proliferation threats posed by sensitive nuclear technologies and materials. The first would be to construct technical and institutional safeguards adequate to allow plutonium fuels and uranium enrichment technologies to be used around the world without presenting unacceptable dangers of diversion to weapons use. A second approach would involve a uniform world regime with severely restricted use of plutonium and enrichment. Finally, a third way would be for nations to recognize a wide variance in reasonable needs for plutonium and enrichment facilities, leading to a situation in which these are regarded as appropriate for use in some countries, but to be avoided in others.

Very early the United States moved down the first path. In the 1950s and 1960s, when the United States held a near-monopoly in nuclear fuel supply and nuclear technology, it led in establish-

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ing bilateral controls and the multilateral safeguards of the International Atomic Energy Agency (IAEA). The basic bargain of the 1970 Nonproliferation Treaty (NPT) was that non-nuclear-weapons states were assured access to nuclear technology and fuels in exchange for a no-weapons pledge and safeguards on all nuclear activities. For nations not signing the NPT, access was more limited: they could receive supplies only if they accepted safeguards on each transfer of technology or fuel.

The current debate centers on the reprocessing of spent fuel from present "conventional" reactors, and the ensuing use of plutonium. Though high-enriched uranium is as much a weapons material as plutonium, at present the spread of commercial uranium enrichment is less of a threat due to its technical complexity and high cost. With new technologies under development, and growing nuclear programs, this aspect of the connection between nuclear power and nuclear weapons will eventually surface as a major new challenge to the nonproliferation regime. And there is today one case, in Pakistan, where the fear is that clandestinely acquired enrichment technology may be employed to produce weapons material. But for the most part the question of enrichment facilities is less pressing than that of plutonium-producing technology and facilities.

In the early years of the industry, and indeed up to about 1976, it was the view of the U.S. Atomic Energy Commission and the nuclear industry that the separation of plutonium from spent fuel and its use as a fuel in conventional reactors (called recycling) was a natural component of an efficient light-water reactor cycle, as well as a necessary step in effective nuclear waste disposal and a logical move toward the expected development of breeder reactors fueled by plutonium. Although the United States refrained from exporting reprocessing equipment, the assumption was that plutonium fuels would become a normal part of the international fuel cycle. There was some awareness of its special risks: early agreements provided for U.S. buyback of excess plutonium, over and above fuel cycle needs. But beyond these very loose controls there seems to have been little concern that the proliferation risks of a plutonium fuel cycle were significantly greater than for the uranium-based cycles. Indeed, it was on this basis that the United States declassified the technology for reprocessing of spent fuel to recover plutonium. It was assumed that safeguards would be equally effective for all cycles—in effect decoupling technical decisions in system design from problems of nonproliferation.

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Confidence in this approach faltered in the mid-1970s. First, there was the Indian explosion in May 1974. Soon thereafter, new nuclear exporters became active. France and Germany considered or negotiated sales including pilot reprocessing or enrichment facilities to Brazil, Iran, South Africa, Pakistan, and South Korea, marking what a colleague labeled in mid-1976 "the end of the American monopoly."[1] These events also stimulated a reexamination of the assumption that safeguards would be adequate to deal with plutonium, and with the spread of enrichment facilities. The issue of technological choice as a fundamental factor in proliferation risk was brought suddenly to the fore.

The issue surfaced in the Congress in early 1976 and found wider expression in the presidential campaign, when both candidates called for a pause in plans to recover plutonium from U.S. spent fuel. The Carter Administration carried this move further, with an indefinite domestic deferral of reprocessing and the commercial development of breeder reactors. These changes had international implications as well. In effect, the United States began trying to reverse the direction it had set for the world in its two decades of technological leadership and to move—at least for a time—toward the second path above, with plutonium to be withheld uniformly from fuel cycle use.

The new caution was based on a conviction that existing safeguards could not provide a probability of detection great enough to deter decisions to acquire nuclear weapons. Or, even if detection were possible, the warning would not come in time for international response prior to the realization of a weapons capability. The issue is not only that sensitive commercial nuclear technologies and materials might be sought out of a desire for nuclear explosives—there are simpler and more expeditious routes to weapons—but that the more immediate availability of a weapons option from commercial programs would alter the domestic political processes affecting weapons acquisition decisions. By acquiring these facilities or materials, nations would move closer to weapons without having to make, or acknowledge, explicit decisions to do so. Moreover, countries would have to assign a higher probability to the possession of weapons by potential adversaries, thereby destabilizing international relations.

Unfortunately, this recognition came just as the technological

[1] See Paul L. Joskow, "The International Nuclear Industry Today: The End of the American Monopoly," *Foreign Affairs,* July 1976, pp. 788-801. Professor Joskow argued even then (p. 789) that, in the light of the new situation, "trade in nuclear facilities can be effectively regulated only through cooperative agreements and international institutional arrangements, not by unilateral actions by the United States."

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leverage of the United States was slipping away, to be replaced by vigorous competition with France and West Germany for reactor export sales. At first, there were informal proposals to seek accommodation with these new forces, notably the market-sharing suggestion of Senator Abraham Ribicoff,[2] but there was little interest abroad in such arrangements. There also were efforts to use non-nuclear sources of American influence: for example, the United States persuaded South Korea to reverse the purchase of a reprocessing plant from France, and the 94th Congress passed the Symington Amendment to the foreign aid bill, which cuts off U.S. aid to countries importing or exporting enrichment or reprocessing equipment without guarantees of safeguards on all nuclear power activities. But the ultimate focus of legislative action in 1977-78 was toward a new basis for U.S. nonproliferation policy, largely through conditions on the export of fuel enriched in the United States. Enrichment services were seen to be the remaining source of direct U.S. nuclear leverage.

A year and a half before the passage of the Nuclear Nonproliferation Act of March 1978, Senator Ribicoff had proposed threatening "a cutoff of enriched uranium fuel to supplier nations that refuse to join in meeting basic nonproliferation objectives" if there was insufficient interest in the market-sharing approach.[3] This possibility was echoed a year later in President Carter's response to a question following his April 7, 1977 announcement of major changes in U.S. nuclear policy: "If we felt that the provision of atomic fuel was being delivered to a nation that did not share with us our commitment to nonproliferation, we would not supply that fuel."[4] This condition was incorporated into the U.S. nonproliferation legislation of 1978.

However, if alternative supply sources exist, countries will accept U.S. conditions only if the benefits of doing so outweigh the costs. Therefore let us examine, first, the provisions and effects of the Nonproliferation Act, and then the comparative costs to other nations of compliance and noncompliance with its terms.

III

Title I of the Nuclear Nonproliferation Act is concerned with the assurance of adequate supplies of low-enriched uranium fuel.

[2] Abraham A. Ribicoff, "A Market-Sharing Approach to the Nuclear Sales Problem," *Foreign Affairs*, July 1976, pp. 763-87.

[3] *Ibid.*, p. 785.

[4] White House Briefing Room Transcript of April 7, 1977. Reaction to this statement was undoubtedly intensified by earlier Canadian actions in embargoing uranium contracted for by Japan and Western Europe.

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It proposes unilateral and multilateral actions intended to "provide a reliable supply of nuclear fuel to those nations and groups of nations which adhere to policies designed to prevent proliferation." This appears to conform with the fuel-assurance obligations of the United States and other nuclear weapons countries under Article IV of the 1970 Nonproliferation Treaty.

However, the Act's fuel-assurance provisions are then linked directly to Title III of the Act, which imposes new and more restrictive nonproliferation conditions on specific export licenses. In addition, any U.S. participation in international undertakings requires explicit congressional approval.

From the foreign perspective, the Act thus appears to subordinate low-enriched uranium fuel assurance to satisfaction of new U.S. nonproliferation requirements. Indeed, the inflexibilities of the Act's requirements, and the complex procedures proposed for implementing them, clearly compromise fuel supply security even for those nations that share the U.S. commitment to nonproliferation.

The evident intent of Title III of the Act is to restrict the spread of reprocessing and enrichment facilities and to discourage commitment to plutonium fuels for recycle or breeders. In regard to export policy for nuclear fuel, the Act specifies new criteria and procedures both for bilateral government-to-government Agreements for Cooperation and for individual licenses of specific exports under those Agreements.

Some of the criteria—application of safeguards to particular exports, prohibition of use for explosives, physical security requirements, and application of safeguards to subsequent generations of material or equipment derived from exports—are comparable to those in prior Agreements and to those imposed by other suppliers. But the Act goes considerably beyond these common conditions and beyond past practices, imposing new conditions on most of its nuclear trading partners and, in many cases, doing so retroactively, even if the exports were covered by existing agreements and contracts.

Specifically, the Act requires prior approval for reprocessing of spent fuel of U.S. origin or fuel used in reactors provided by the United States; similar conditions apply to the enrichment of uranium produced or processed by the United States and to subsequent retransfers of nuclear materials or technology. Severe restrictions are placed on the granting of such approvals. The Act further requires that any recipient of fuel, if it is a non-nuclear-weapons state, must accept safeguards on all nuclear activities

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(full-scope safeguards).[5] It also demands renegotiation of existing Agreements for Cooperation, though the Agreements no longer play such an important role. Instead, the primary locus of U.S. control is shifted to individual export licenses and subsequent approvals.

The implementation of the new conditions in export processes and subsequent arrangements is extremely complex. For example, the issuance of an export license for fuel requires that the Secretary of State, on behalf of the executive branch, certify to the Nuclear Regulatory Commission (NRC) that the export "will not be inimical to the common defense and security or that any export in the category to which the proposed export belongs would not be inimical to the common defense and security because it lacks significance for nuclear explosives purposes." This broad judgment by State will itself require coordination among the Departments of Energy, Defense and Commerce and the Arms Control and Disarmament Agency (ACDA), and notification must also be given to appropriate committees of the House and Senate. The NRC must then make an independent "reasonable judgment" (possibly with public participation) that the criteria above are being met. If the NRC issues the license, it is still subject to judicial review under administrative law.

The key difficulty for some countries is the need for prior approval by the United States for each specific retransfer or for reprocessing of spent fuel which is of U.S. origin or which has been used in a facility supplied by the United States. Such "subsequent arrangements" must be approved on a case-by-case basis by the Secretary of Energy in consultation with the Director of ACDA, the NRC and the Secretary of Defense, with the concurrence of the Secretary of State, and only after justification to appropriate congressional committees. The Act also interposes barriers to the further construction of reprocessing plants: approval is to be given for reprocessing only in facilities which had been commercially in operation (or had received U.S. approval) prior to passage of the Act, unless it can be demonstrated that the reprocessing "will not result in a significant increase of the risk of proliferation." In judging the latter, the likelihood of timely warning to the United States of diversion, well before construction

[5] In practice, the full-scope safeguards condition in the Act applies to non-signers of the Nonproliferation Treaty (notably Argentina, Brazil, India, Israel, Pakistan, South Africa, and Spain), since non-nuclear-weapon signatories to the NPT are already obligated to accept full-scope safeguards.

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of nuclear weapons, will be of primary importance.[6]

Without the guidance of experience, or the existence of precise definitions and procedural details, these license and approval processes lack predictability. Changes in the personnel or policies of any of the numerous governmental entities statutorily involved may create new uncertainties. These problems might exist even for countries totally conforming to U.S. nonproliferation conditions. For the great majority who do not yet conform, the prospects for predictable long-term nuclear trade with the United States are severely compromised.

In recognition of the stringency of its conditions and the extent of its departure from past practice, the Act does contain several potentially mitigating provisions. The President may exempt an Agreement for Cooperation from any criterion if he determines that its inclusion "would be seriously prejudicial to the achievement of United States non-proliferation objectives or otherwise jeopardize the common defense and security." Moreover, in decisions on licenses of specific exports or approvals of subsequent arrangements, he can override the NRC by Executive Order in specific cases, subject to 60-day review by Congress, which may deny the export by concurrent resolution. And the executive branch may defer the application of the new conditions in certain defined cases.[7] These temporary exemptions and interim flexibilities have been used by the executive to advance near-term nonproliferation objectives.

But what is most notable about these allowances for exemption and deferral is not that they exist but that they are in every case provisional. The Act gives countries no basis for confidence that such special rights will be extended to them consistently and reliably in the long term.

IV

From the beginning, long-range nuclear power planning had been based on the free use of plutonium fuels (under IAEA

[6] Note that this may involve a judgment as to the efficacy of the IAEA safeguards system in providing such warning *to the United States* of *possible* diversion. It is not obvious that the system provides such warning at present.

[7] The imposition of the "subsequent arrangement" conditions can be delayed by action of the Secretary of State until March 1980 for particular nations or groups of nations agreeing to renegotiate Agreements as stipulated in the Act. This exclusion, which may be extended for additional 12-month periods by Executive Order, is a critical negotiating issue with EURATOM, which has its own safeguards system and prohibits barriers to free movement of nuclear materials within the Community. Additionally, the "full-scope" condition is imposed only for export license applications occurring after September 10, 1979 (or actual export after December 10, 1979), and the President may defer this requirement annually thereafter, under special conditions and subject to congressional review.

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safeguards). It is thus not surprising that the shift in approach contained in the Nuclear Nonproliferation Act should present difficulties for countries with major nuclear programs. By imposing criteria under which any further commitments to reprocessing or breeders are to be regarded as deviations from U.S. policy norms, the Act suddenly called into question the basic assumptions on which these foreign programs are based and created a threat to their future viability.

Nowhere is this conflict more critical than in the area of nuclear waste management. Operating under technical assumptions which are in retrospect questionable, nuclear leaders abroad (as in the United States) fostered the public impression that reprocessing of spent fuel was essential to responsible management of nuclear waste.[8] As a result, the nuclear programs of Japan, West Germany, Sweden and other countries depend, legislatively and from a public opinion perspective, on waste management arrangements that involve reprocessing. By requiring prior U.S. approval for transfer and reprocessing of each batch of fuel of U.S. origin, the Act creates uncertainty not only about the economic and technological success of these foreign programs but also about the near-term political acceptability of the nuclear option itself.

In the longer term, nuclear development in Japan and Western Europe has been predicated on recovery and use of plutonium, and on technological efforts to achieve greater self-sufficiency through the development of plutonium breeder reactors. By controlling spent fuel reprocessing, the United States controls access to plutonium by these nations. Thus, from their perspective, compliance with the new Act threatens their long-term domestic nuclear policies and energy security.

For those countries that are nuclear suppliers, there are additional problems resulting from U.S. policies. The export of nuclear technology and reprocessing services can have an important effect on trade balances; nuclear exports can also be used to bolster international relationships which yield access to sources of raw materials and to future markets for other products. Perhaps most important, exports provide a way to finance and sustain nuclear industries which might otherwise not be cost-effective for the new suppliers, based on domestic markets alone.

[8] This assumption was based on a plausible technical logic, widely prevalent prior to 1977, that radioactive materials needed to be reduced in volume by reprocessing and encapsulated in glass prior to disposal. Subsequent studies suggest that waste management does not require, or necessarily benefit from, reprocessing of spent fuel. See, for example, the Report to the American Physical Society by the Study Group on Nuclear Fuel Cycles and Waste Management, July 1977, in *Reviews of Modern Physics*, Vol. 50, No. 1, Part II, January 1978.

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Thus, Japan and Western Europe in particular are strongly constrained in their ability to respond to U.S. initiatives by interdependencies among foreign and domestic nuclear policies, commercial and trade relationships, and energy security concerns; all of these factors contribute to the momentum toward the use of plutonium fuel cycles in these areas. On any realistic political analysis, it seems clear that the more serious proliferation risk is centered not in Japan or Western Europe, but rather in the developing countries that might be swept into a plutonium-oriented system of technologies and fuels. Nevertheless, the new U.S. policy, if strictly interpreted, unilaterally imposes uniform and stringent conditions on all countries. It is hardly surprising that the initial response by the industrialized countries whose programs would be most severely affected was one of categorical rejection.

On technical and economic grounds, the developing countries might seem to pose fewer problems for U.S. policy. Here the proposed U.S. bargain—ample supplies of low-enriched uranium fuel in exchange for limitations on sensitive technologies and more comprehensive safeguards—should be a better deal. For some decades yet, these countries will not be able, technologically or economically, to make extensive use of plutonium or indigenous reprocessing or enrichment facilities, but will continue to depend on industrialized supplier states now placing relatively stringent conditions on access to such sensitive technologies and materials. Moreover, although the technology path followed by industrialized countries affects desires and technological opportunities in developing countries, the developing countries do not yet have large commitments to particular technologies; nor do they have public opinion barriers to altering their nuclear energy strategies.

Thus, the costs of their compliance with U.S. conditions are relatively low. But though the costs of compliance are low, so also are the costs of avoiding dependence on the United States. By late this year, or early next, it may be possible for most of these countries to arrange fuel supply without recourse to the United States.

V

As recently as 1977, the United States provided over 70 percent of the enrichment services for foreign reactors (outside the "centrally planned economies" of the Soviet Union, the COMECON countries, and China). Though there were some voices to the contrary, many of those concerned with the formulation of U.S. policy in 1976–78 appear to have assumed that this dominant

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position would persist for some years yet, giving time to exercise U.S. leverage. True, new European enrichment suppliers, URENCO and EURODIF, were coming into operation.[9] But they were not expected to result in major changes: high demand levels and tight market conditions would limit the ability of nations to alter their enrichment contracting patterns. Those concerned about the effects of new supply possibilities on the U.S. position in the market generally focused on the more distant future, on the possible entry in the late 1980s or the 1990s of South Africa, Brazil, or Japan.

Since then, however, there has been an unexpectedly high rate of slippage in the nuclear growth plans on which enrichment contracting and enrichment facility construction were based; there has also been a substantial increase in enrichment contracting between West European nations and the Soviet Union. The current result is a considerable oversupply of enrichment and the creation of numerous opportunities for consumer nations to alter enrichment supply patterns to fit their political or other interests, and, in some cases, to escape further dependence on the United States.[10]

Taking the Soviet Union first, its contracts with Western Europe have increased to the point where they now provide, through 1990, for quantities of enriched fuel comparable to those contracted for from the United States in this period. The largest quantities go to the countries with the largest nuclear programs: France, Spain, West Germany and the United Kingdom. The Federal Republic could cover nearly all of its needs this year with scheduled Soviet imports (due to over-contracting), but the fraction of needs provided by the U.S.S.R. drops rapidly to about 40 percent by the end of 1982. France has less dependence on the U.S.S.R.—and on the United States for that matter—and indeed becomes essentially self-sufficient with the startup of the EURODIF

[9] URENCO is a consortium of the United Kingdom, the Netherlands and West Germany; it began furnishing enrichment services in 1978 from a centrifuge enrichment facility but is currently committed to a capacity only about one-tenth that of the United States. EURODIF's gaseous diffusion plant in France is financed by France, Italy, Spain, Belgium and Iran, each of which is entitled to a share of the annual output (nearly half as large as current U.S. capacity). EURODIF has just begun operation and will reach full output in 1982.

[10] This section is based on research sponsored by the Office of International Programs, U.S. Department of Energy (which has no responsibility for opinions expressed) and by the MIT Center for Energy Policy Research. See T. L. Neff and H. D. Jacoby, "Nuclear Fuel Assurance: Origins, Trends and Policy Issues," MIT Energy Laboratory Report No. MIT-EL 79-003, February 1979, and "Supply Assurance in the Nuclear Fuel Cycle," *Annual Reviews of Energy*, Vol. 4, 1979 (forthcoming). Enrichment requirements are based on the OECD/NEA-IAEA nuclear growth estimates of December 1977, *Uranium Resources, Production and Demand*, OECD, France. These growth estimates are now regarded as high, and adjustment to more recent unpublished estimates would only strengthen the conclusions discussed in the text.

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facility. Overall, the Soviets will provide 50–80 percent of Western Europe's enriched fuel needs for each of the next four years. The U.S.S.R. does not yet appear to have contracted to supply enrichment services outside Europe, though there have been recurrent reports of negotiations with Japan.

The second major source of new enrichment supply will be the EURODIF facility in France. When this facility was planned, it was expected that the equity partners (France, Italy, Spain, Belgium and Iran) would utilize virtually all of its output. However, actual reactor deployments have not supported these demand expectations, and EURODIF will now have capacity in excess of the equity partners' needs even after contracts with Japan, Switzerland, and the Federal Republic are met. If the equity partners maintain their present contracts to purchase enriched uranium from the United States and the U.S.S.R., the EURODIF excess capacity in the 1980–84 period could range from nearly five to as much as seven million "separative work units" (SWUs) annually, enough to provide annual fuel reloads for 45 to 60 gigawatts/electric (GWe) of reactor capacity (comparable to total West European capacity over this period).[11] This excess is projected to decline gradually over the remainder of the 1980s, but even under optimistic nuclear growth assumptions the excess does not vanish until the end of the decade. If the equity partners were to drop their contracts with the United States, substituting EURODIF capacity, the surplus available for others would be reduced to about five million SWU in 1981 and about one million SWU in 1987.

In this situation, it will be technically possible for a number of countries to find new supply arrangements that avoid, or significantly reduce, dependence on the United States—at least for a time. Indeed, as of 1980, the combination of excess capacity and Soviet exports is such that it would be physically possible for *all* non-U.S. demand to be satisfied by non-U.S. sources. This complete independence could be sustained only until about 1984 (perhaps 1987 if all excess enrichment capacity were used to produce enriched fuel which was then stockpiled) when projected reactor growth would begin to strain planned non-U.S. capacity.[12] But if the nuclear growth rate declines further, or if new enrichment capacity is constructed, independence from U.S. supplies could be extended indefinitely.

[11] Enrichment services are measured in separative work units; about 240,000 SWU are needed to provide the initial fuel for a 1,000 MWe light-water reactor and an annual reload of fuel requires about 110,000 SWU.

[12] These calculations assume Soviet exports at currently contracted levels (a peak of 4.8

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Which countries might find it advantageous and possible to secure alternatives to dependence on the United States? The list clearly includes some of the major nuclear consumer and supplier states and some of the developing countries. Countries like West Germany and Japan may wish to free a fraction of their fuel from U.S. conditions (and from uncertainties about future conditions) in order to make decisions on breeders or other technological steps independently of the United States. Some of these countries also have international trade interests that are threatened by their dependence, or that of their customers, on the United States. For example, sales of reactors and reprocessing or other services are often tied to fuel supply arrangements, and the possibility of intervention by a third party may affect the competitive advantage of different suppliers.

Among the major nuclear fuel consumers, France is already nearly independent of the United States and is generally oversupplied. West Germany is in a more difficult situation since current contracts are comparable to requirements from the early 1980s on, and nearly half of the contracted supply is from the United States. Alternative sources of supply include the U.S.S.R., expanded URENCO capacity and purchases from EURODIF. With a domestic centrifuge industry in need of orders, URENCO expansion appears most likely; indeed, there are industry reports that Germany will soon cancel eight enrichment contracts with the United States (55 percent of its total contracted U.S. supply) and expand URENCO accordingly.[13]

The third major consumer of interest is Japan, all of whose enrichment currently comes from the United States. Under present contracts, Japan appears to be unavoidably dependent on the United States until the late 1980s. Clearly, however, it would be in Japan's interest to diversify, obtaining some enrichment services from EURODIF or the U.S.S.R. until a domestic centrifuge capacity can be built up in the late 1980s. Other industrialized countries, such as Spain or Sweden, would be in a good position to end enrichment dependence on the United States, though the incentives do not appear to be as great as for the three major consumers already discussed.

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million SWU annually in 1982), URENCO growing to only 2 million SWU, and EURODIF coming on line on its present schedule, with a peak capacity of 10.8 million SWU by 1982. U.S. capacity—not fully utilized at present—is assumed to be increased through the currently planned improvement and upgrading of U.S. diffusion plants and the development of a U.S. centrifuge capacity of 2.2 million SWU by 1988, bringing total U.S. capacity to 29.5 million SWU by the late 1980s.

[13] *Nuclear Fuel*, February 19, 1979, p. 9.

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The disincentives to such a shift away from U.S. supply should not be considered prohibitive. While the United States would find the loss of influence and income unattractive, it could hardly argue that changes in suppliers of low-enriched uranium fuel constituted an immediate proliferation danger and thus justified strong political opposition. Moreover, the economic penalties are small: slightly higher non-U.S. prices, and even cancellation penalties, would add at most a few percent to the cost of nuclear electricity. On balance, the trend toward substitution of non-U.S. supplies of enriched uranium for those from the United States will continue, unless there is some adjustment in U.S. policy (and probably some shift will occur even if there is).

In short, the position of the United States in the supply of uranium enrichment services is simply not powerful enough to affect strongly the decisions of the major industrialized nations on future nuclear technology. Indeed, these nations are in fact much more dependent on a handful of countries for their supplies of raw uranium than they are for enrichment services. To the extent that there now exists any substantial supplier leverage over major nuclear fuel consumers, it is gradually passing from the United States to the currently largest actual and potential sources of raw uranium, notably Canada and Australia.[14] And even these two countries may have only transient influence, given the rapid expansion of output in Africa and intensive exploration elsewhere.

In the case of the developing and middle-income nations, neither the position of the United States in enrichment capacity nor that of Canada and Australia in raw uranium seems to offer significant direct leverage on technology choices. These countries have relatively small fuel requirements over the next decade, and have yet to make commitments for the major portion of projected capacity. Therefore they can pick and choose among available suppliers. For enrichment, EURODIF is the most likely new source of supply; for uranium, African suppliers with expanding output (South Africa, Namibia, Niger and Gabon) will appear attractive to countries wishing to avoid conditions likely to be imposed by the United States, Canada and Australia. Detailed calculations for a representative set of developing or middle-income countries, with a total nuclear capacity projected to grow to about 30 GWe in 1990, show that the requirements of these countries would fit

[14] Although the United States still has substantial reserves of raw uranium, it does not play a major role in the world market. Foreign consumers turn to U.S. sources for spot needs, in preference to long-term contracts. This is perhaps due to uncertainty about the stability and acceptability of U.S. export policies.

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easily within the EURODIF excess capacity window until about 1990 (until later if there is further slippage in European demands on EURODIF capacity).[15] By 1990, additional enrichment capacity could be built. Raw uranium requirements are also easily met by African suppliers and can even be met until the mid-1980s by domestic and foreign uranium production controlled by France and in excess of that country's domestic needs. A considerable quantity of uranium will also be freed by Iran's abrogation of uranium supply contracts with South Africa.

If there is no convergence in the policies of the United States and other suppliers, the developing countries are likely to exploit remaining differences, perhaps to the detriment of nonproliferation goals. France, as the dominant partner in EURODIF and with its favorable access to uranium through its special relationships with several African suppliers, is the key supplier country involved. If there are major differences between French and American policies on nuclear fuel supply, it is not difficult to imagine a gradual drift toward the French sphere of nuclear influence.

These market changes are of profound importance to U.S. nonproliferation policy, because countries perceiving an advantage in independence of the United States will soon be able to achieve it. This perception undoubtedly will be affected by the way in which the United States uses fuel to achieve broader constraints on nuclear development abroad or on export policies of other suppliers. If the stakes are raised too high, or if large uncertainties about the security of supply from the United States continue, the balance of some nations' interests may be shifted away from the United States, to the detriment of both its nonproliferation influence and its commercial interests.

VI

The preceding analysis reveals several deficiencies in the current U.S. nonproliferation legislation. As noted at the outset, the assumption that fuel-cycle leverage can be used to discourage commitments to plutonium or indigenous fuel-cycle facilities is not self-consistent. This problem would be less serious if the United States were to retain total fuel-cycle control, so that it could raise the costs of noncompliance with U.S. policy above the costs of complying. But U.S. market leverage is declining rapidly

[15] The countries examined were Argentina, Brazil, Egypt, India, Iran, South Africa, South Korea, and Taiwan. Of the 30 GWe in 1990, about six GWe would be heavy-water reactors not requiring enrichment. These projections are ambitious; lower growth would provide even better opportunities to achieve independence of the United States.

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and so too is any influence based on this leverage. The continued U.S. use of fuel leverage only tightens near-term supply conditions and increases uncertainties, adding to the pressure to decide in favor of the very activities we are trying to restrain. In the larger perspective, the Act's new conditions on access to U.S. supply, and its apparent willingness to impose high costs on recipients—in terms of technology planning, energy security or sovereignty—have not only created new fuel-assurance fears, but raised questions about balance and stability in U.S. policy.

How might the United States respond to this situation? There are two potential approaches: maintain the strict policy of the Nonproliferation Act by increasing effective fuel-cycle leverage, or adapt U.S. policy to a changing world. We believe the first choice to be a dangerous one. The United States could try to make more vigorous use of its own remaining fuel-cycle leverage, for example by threatening total cutoff if there is inadequate response to U.S. proposals. But this would likely make things worse, threatening a number of important relationships and strategic interests, and increasing the stakes in a situation in which the United States ultimately cannot win.

The United States could also try to increase fuel cycle leverage by working in tandem with Canada and Australia. Although, as we have just noted, the uranium export policies of these countries will in fact have more enduring relevance to other nations' decisions, their use of fuel leverage involves the same questions of self-consistency discussed above. Canada has retreated from its unilaterally imposed conditions on exports to Europe for the duration of INFCE but will subsequently have to reach an accommodation which protects Canadian commerical interests as well as international security. Canadian export conditions thus do not represent a very promising channel for U.S. foreign policy. Australia poses an even more difficult problem. Present Australian policy on uranium development and exports appears to be premised on a satisfactory international nonproliferation agreement following INFCE. If such an agreement cannot be achieved, it is possible that Australia will not be able to sustain the fragile domestic political consensus which allows large-scale exports of uranium. The actual or potential loss of this supply would then accelerate commitments to plutonium. In short, uranium supply from Canada and Australia is susceptible to the same concerns we have raised about the efficacy of a U.S. nonproliferation policy based on fuel leverage, with additional complications.

Thus, to attempt to use even strengthened fuel leverage, alone

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or with others, is simply not a workable policy. But if the alternative is a policy of adaptation, what are its essential features?

They are, we believe, threefold. First, the conditions for U.S. supplies of nuclear technology and materials to foreign consumers must be made more predictable. Second and directly related, the United States must seek more effective, and less self-contradictory, sources of influence than that provided by fuel-cycle leverage. But these two essentials cannot be met without a third—U.S. policy must be responsive to the widely varying situations of different countries, and founded on realistic assessments of where the balance lies as between reasonable nuclear power needs and weapons proliferation dangers in each country or group of countries. This third condition—in essence a more selective policy on the part of the United States and, one hopes, others of like mind—raises basic questions about the distinctions now enshrined both in the Nonproliferation Treaty and in the 1978 U.S. Nonproliferation Act.

Under the NPT, the only distinction between nations is on the basis of possession of nuclear weapons. Non-nuclear-weapons states, without distinction, are assured access to nuclear power technologies and materials (subject to a no-weapons pledge and the acceptance of safeguards). The U.S. Act, in effect, preserves the weapons versus non-weapons distinction by a system of conditions applicable equally to all non-weapons states. And, it can be argued, such a system is consistent with the Treaty requirement of not discriminating among non-weapons states wishing to pursue nuclear power programs.

However, others argue that the Treaty need not be construed to mean that all non-weapons nations must in practice receive the same kinds of technology and materials, especially if the obtaining of these would create clearly different risks of weapons proliferation. Under this interpretation, all nations should be able to obtain what they reasonably need for nuclear power purposes, but particular kinds of supply could take into account both need and proliferation risk. This view might also seem both reasonable and in accord with the basic objectives of the Treaty. The resolution of these conflicting interpretations awaits full international consideration, especially in the upcoming NPT Review Conference.

In practice—and in large part because of technological developments and perceptions that have arisen since the Treaty was adopted in 1970—it is now clear that all non-weapons states do *not* have similar needs, though there is a sensitive question of assessing proliferation risks and who should be entitled to make

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such assessments. For a few non-weapons countries such as Japan, West Germany, and perhaps others, the pursuit of plutonium-related technologies is both a matter of national policy and a response to energy needs and assessments which it would be difficult to refute conclusively. For others, however, it is possible to argue persuasively that these sensitive technologies offer little or no nuclear power benefits.

Indeed, just such a selective distinction has been pursued in several contexts by the Ford and Carter Administrations since 1975. In bilateral discussions, the Administration has indicated willingness to consider use of plutonium in major industrialized non-weapons countries like West Germany or Japan. In addition, American initiative led to the formation and operation of the London suppliers' group, the initially secret group of representatives of nuclear exporting countries that began meeting in London in 1975. Now in the open and institutionalized, the London group has been effective in restraining the spread of sensitive technologies and materials beyond the few countries in which their use for nuclear power is at least plausible.

But the efforts of the Administration must be seen—and are seen abroad—against the background of the 1978 Act, which legislatively entrenches U.S. policy in a uniform set of restrictions. What negotiating flexibility the United States has is currently limited to the exemption procedures of the Act. Foreign nations cannot yet have a clear view of the extent to which U.S. policy can ultimately adapt to their needs; under worst-case planning, they will assume that the inflexibilities of the Act will prevail. This prospect tends to unify opposition to U.S. efforts, with Japan and West Germany becoming allied with each other, with other states in the European Community, and, potentially, with some of the developing countries.

At present, many of these issues are held in unstable equilibrium by the INFCE process. American officials have hoped that INFCE will result in an international consensus on economic and technical factors that would automatically lead to distinctions between nations on these grounds, and thus avoid the need to make distinctions on the basis of nonproliferation risks. For example, a collective judgment that recycle of plutonium in light-water reactors (thermal recycle) was without significant merit could lead to the restriction of plutonium use to the few advanced countries experimentally pursuing breeder reactors. While this approach is attractive, its success is problematic. And even if the executive succeeds in achieving such a general agreement, it cannot fit

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comfortably within the confines of the U.S. Act.

There are, of course, several other directions in which the world could move when INFCE ends. Unless the United States takes action soon, there is a significant chance that the outcome will be unsatisfactory to the United States and even threatening to the existing nonproliferation regime. While further unilateral actions cannot guarantee a better outcome, there are steps that could have a constructive influence on the way the world moves at the end of INFCE.

The critical needs are for more flexibility in dealing with different nations, and greater predictability once the terms of bilateral relations are agreed to. As discussed above, the present Act has difficulty in meeting these needs. Without changes in the Act, only a few options are plausible: the executive may commit itself to intervene through exemption procedures, or the NRC and the Secretary of Energy might commit themselves to blanket licenses or prior approvals, perhaps on a reactor- or country-specific basis. However, these actions are not explicitly provided for in the Act, and uncertainties about congressional approval, and the longevity of commitments by agents with limited tenure, raise questions about their effectiveness in any but short-term situations.

The attractive alternative to these limited executive measures is congressional action. We believe that the Act should be revised, and that particular attention should be paid to the role played by Agreements for Cooperation, as opposed to export license and subsequent approval procedures. As the Act is presently constructed, Agreements play a subordinate role: licenses and approvals generally require satisfaction of Title III's technology-oriented nonproliferation criteria even if some of these criteria are explicitly waived in the negotiated Agreement. It is this rigid policy focus upon individual licenses and approvals that creates most of the uncertainty and inflexibility.

The most obvious solution would be to restore the Agreement for Cooperation to its original role as the basic instrument of long-term bilateral nuclear relations. Title III of the Act could be revised so that a license or approval would be granted as long as there was no evidence that the prospective purchaser was in violation of its Agreement with the United States. This reversal of the burden of proof for export licenses would reduce uncertainties and renew incentives for nations to seek accommodation with the United States on nonproliferation objectives.

This revision would also provide a firmer and more realistic

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framework for responding to the diverse needs and proliferation risks in different countries. The basic criteria for Agreements laid down in the 1978 Act could remain, protecting essential nonproliferation objectives and avoiding (at least in part) the appearance of discrimination. However, the ability of the Administration to negotiate, and propose to Congress, exemptions from particular Agreement criteria for particular nations would remain and would have much greater value in negotiations because such exemptions would apply to all licenses *unless* a nation violated the terms of its Agreement. Thus the President could propose that sensitive facilities or materials could be used in particular non-nuclear-weapons states, under specified conditions. In addition, it would be possible to require more evidence of compliance for some states than for others.[16]

In sum, we believe that amendment of the 1978 Act is a prerequisite to a shift to a more realistic and effective U.S. policy. Only such amendment can give the U.S. negotiators the necessary flexibility for pursuing with other supplier and consumer nations the kind of multilateral agreements and arrangements that would truly establish a workable balance between nuclear power needs and the risks of weapons proliferation.

VII

A more successful U.S. policy requires not only adaptive changes in approach but also a clearer recognition of the relationships between the ends of U.S. policy and the means at our disposal. The evident goal is to retard proliferation. In the near term this involves slowing commitments to sensitive technologies and materials. In the long term—if enough time can be gained—the problem is one of altering the structure of incentives and disincentives to weapons acquisition and constructing political, technological and institutional mechanisms which reduce the remaining proliferation risks. Full discussion of this longer term task is beyond our scope. However, our analysis does indicate that success will require a sensitivity to the growing importance of other nations in nuclear affairs.

[16] The balance between Congress and the Administration under an amended Act would require careful consideration. The present Act specifies considerable review powers for Congress in regard to executive branch actions. While these safeguards may well be superfluous in the case of nonproliferation policy, where there is general bipartisan agreement, they do not represent a serious impediment to executive branch initiatives and could be preserved if desired. The more important problem is that discussed in the text: the severe prior limitations on the diplomatic opportunities and flexibility of U.S. negotiators imposed in the Act's present formulation.

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The approach chosen in the 1978 Act is unilateral, as may have been appropriate to the initiation of a period of interactive policy shifts here and abroad. But the limits of unilateralism are now being strained. Dealing with proliferation is increasingly an international task requiring the cooperation of a number of key nations. U.S. policy must have the flexibility to accommodate the vital interests of these nations or it will fail. The measures we have suggested will not guarantee success, but only remove our own internal impediments to success, putting the United States in a more flexible—and believable—position to work out solutions bilaterally and multilaterally.

If the United States does not find ways to adapt, lowering the uncertainty of fuel supply, the evolution of nuclear fuel markets will soon provide opportunities for other countries to avoid involvement with us. In this event, the United States could only take comfort in having clean hands with respect to the further spread of enrichment facilities or plutonium, but it could not take credit for having led the world to a safer nonproliferation regime. Indeed, the uncertainties it has created about fuel supply could, eventually, make things worse rather than better. This is not to argue that the United States has thus far made things worse; past changes in American policy have called attention to important problems and set the stage for significant improvements in the nonproliferation regime. But without further changes in policy, the United States will not have the freedom to act on this stage.

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Alberto Quirós Corradi

ENERGY AND THE EXERCISE OF POWER

At different periods throughout history, certain specific issues have come to occupy for a time a focal position in the interplay of power between nations, groups or individuals. Such issues have included land, food, religion, treasure, and trade. Over the last 20 years, and at first unnoticed, energy—more specifically oil—has moved into this central role. While energy cannot be expected to hold such a position forever, over the next several years it will remain at the center of interaction of world forces.

It is now some five years since what might be called the energy discontinuity of 1973–74—the abrupt price rise that signaled a massive shift in the power relationships centered on oil. However, the balance of the evidence still indicates that the forces involved are far from completely understood, so that surprises still occur. Consumers and suppliers continue to talk past each other, unable or unwilling to understand each other's positions, let alone to make the necessary accommodations to reduce the tensions of their relationship.

One reason for the lack of understanding is that most of the voluminous discussion and analysis has been concerned with the economics of the situation, as if this were the only major factor involved. To the consumers, who write most, this may be so. For the producers, the politics of energy are vital, and for them the situation is much more complex. Economics is but one of several factors that determine and lie behind the power relationships involved in global energy supply and consumption. What these other factors are and how they affect the exercise of energy-related power are in need of better understanding—which is the objective of this article.

While everyone knows something of power, many find it difficult to define their understanding of such an abstract concept.

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Bierstedt has compared it to St. Augustine's problem with time: "We all know perfectly well what it is—until someone asks."[1] However, Ralf Dahrendorf, in this journal, has provided a practical definition which serves very well: "the capacity to assert interest effectively, or more simply, to make others do what one wants them to do . . . ."[2]

As we examine how energy has become a focus of power, four key themes emerge:

1. If power is to be real, it must both be perceived and believed. Thus, other power holders—nations, groups or individuals—must recognize it and believe that it would, if necessary, be used. For example, while military might is still seen by many as supreme, the political consequences may be such as to render it unusable, as in the case of so-called limited weapon wars.

2. There is no monopoly of power. It is widely shared and the alignment or groupings of power holders can change. Indeed, as William Bundy has observed, "Real power—the ability to affect others—seems in fact more widely dispersed than perhaps at any time in the world's history."[3]

3. To take actions which make others powerful can have serious effects. Machiavelli, the supreme analyst of Realpolitik and perhaps the inventor of the "case study," had no doubts: "Whoever is responsible for another's becoming powerful ruins himself."[4]

4. While we have tended to think of national power as a balanced mixture of military, economic and political strengths, there are many examples today of power deriving largely or almost entirely from one predominant factor—economic capacity and financial strength in the case of Japan, sheer mass in the case of China, control of strategic resources in the case of Saudi Arabia. Not only does this kind of unique strength give its possessor the capacity to affect others, it also tends to make the holder less subject to at least certain kinds of military threats. While the military factor remains immensely important for many countries (notably the U.S.S.R. and Israel, to take disparate examples), in the modern world the existence of special strengths in other areas tends to play a greater role than in the past.

With these four themes as background, the story of energy-related power can be seen to have developed in cycles somewhat

[1] Robert Bierstedt, "Analysis of Social Power," *American Sociological Review*, December 1950, pp. 730–38.

[2] Ralf Dahrendorf, "International Power: A European Perspective," *Foreign Affairs*, October 1977, p. 72.

[3] William P. Bundy, "Elements of Power," *Foreign Affairs*, October 1977, p. 2.

[4] Niccolò Machiavelli, *The Prince*, Chapter III, trans. George Bull, Penguin Books, 1977.

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reminiscent of former power struggles among nations. An apparently settled power structure is changed by underlying factors of relative power, and there is a steady buildup, within the structure, of tensions that are not accommodated either by events or deliberate decision. Then, often abruptly, realities assert themselves, and there is upheaval followed by a period of adjustment and at least apparent accommodation. However, one or another side then fails to maintain its position, so that the power relationship again fails to reflect reality and there is renewed tension—leading in turn to renewed upheaval and adjustment.

In this paper I shall argue that just such alternating cycles have existed—tension in the rise of the Organization of Petroleum Exporting Countries prior to 1973, adjustment and apparent accommodation in 1973–74, renewed tension in 1975–78, and now a second period of adjustment. But does the adjustment now in progress reflect underlying interests and concerns, as well as the realities of power? Is there a basis for lasting accommodation, or are we likely to fall back into a third period of tension? How can we move from an excessive preoccupation with short-term advantage to a longer term view of the problem that both balances the power factors and takes into account the needs of the world as a whole?

These are hard questions. I raise them primarily in their broad form, for it is only in that form that they can be properly understood and handled. But they are vividly illustrated by my own country of Venezuela—once the world's largest oil exporter, currently the supplier of only six percent of OPEC oil volumes, but which might have a very different long-term future because of its heavy oil deposits. So I shall speak also specifically of Venezuela: its needs, its resources, its future hopes, and how its situation might fit into a lasting overall accommodation.

II

The Organization of Petroleum Exporting Countries was born in 1960 out of the frustration of the producing countries, led by Venezuela and Saudi Arabia. The cause of this frustration was their inability to control the exploitation of their major and perhaps only asset, crude oil, and the realization that their political stability was entirely dependent on oil income. But in fact the price of this commodity was dropping, and the terms of trade were moving against them. Their frustration was also identified with what they perceived as the power of the multinational oil companies to reduce offtake from "difficult" suppliers.

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On the other hand, the multinationals would not have agreed even then, or believed, that they held so much power. They saw themselves as driven by the forces of the market, which favored the companies with the cheapest oil, so that all were compelled to seek the cheapest sources. And the fact that their non-U.S. supplies were largely shut out from the U.S. market greatly increased competition in other areas, and forced prices down.

The decision, apparently taken in the early 1960s, to keep cheap foreign oil out of the United States could hardly be said to be economically determined; internal politics were very much to the fore. The result was that the United States sat, apparently safe behind its tariff barriers, with its production controlled by the Texas Railroad Commission. (The effectiveness of this organization was such as to serve as a model for any later energy cartel.) Despite the knowledge that domestic reserves were not unlimited, what went unnoticed at this time was that the United States was, by this means, establishing the ultimately very dangerous policy of "Drain America First." Also, in so doing, the United States unconsciously set in train the very process described by Machiavelli, of making OPEC powerful, thus leading to the consumers' problems of the present day.

The supplies excluded from the United States, a large part of which were produced by U.S. independents and originally intended for their home market, had to find an outlet. Market pressures forced prices for oil down to such an extent that Europe, and later Japan, turned to and rapidly became dependent upon imported oil. Indigenous coal industries could not compete and went into decline. Early problems in some areas, such as the Iranian and Suez problems in the 1950s and 1960s, were not crucial. The producers did not believe that they could triumph in any confrontation with the developed world, surmising that the United States and, in some circumstances, Venezuela would open their valves and ensure that Europe was supplied. There was also considerable mistrust within OPEC, stemming from the shutdown during the Mossadeq era in Iran, when Saudi Arabia had moved in to capture much of Iran's former markets.

However, the underlying driving forces in the supplier countries were not simply economic. They wished to be free from foreign domination. Instinctively they reacted against foreign "ownership" of their resources just as former anticolonial movements had reacted against foreign "ownership" of their nations. What they lacked was the means to achieve their political aims.

Meanwhile, consumers in the non-communist world had be-

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come so dependent on cheap oil that usage of petroleum products grew at a compound rate of seven percent per annum for some 20 years, from nine million barrels per day (mb/d) in 1950 to 40 mb/d in 1970, with the annual growth in total oil demand reaching two mb/d per year by the late 1960s.

Indigenous U.S. supplies could not hope to match this pace, even for the U.S. market alone. All of the growth was now in international trade, essentially OPEC trade, which also grew at two mb/d per year from 1966 to 1972. In the United States, after 1968, there were no longer any shut-in reserves to act as a buffer in times of trouble. The United States turned increasingly to imports and also rapidly became dependent. Thus imports, from essentially none in 1968, reached four mb/d by mid-1973, at which time they were growing at more than a million barrels a day each year.

Nevertheless, even at this time the producers and the consumers were slow to understand just how fundamental the change was, and just how much the power of the consumers had diminished when they could no longer shop around for supplies elsewhere. The industrialized world was firmly committed to economic growth and had great fears of interrupting the process, so that this fear gave great power to others. The controlling roles of suppliers and consumers were, indeed, poised for reversal.

Perhaps this was best perceived by Colonel Qaddafi of Libya, who was well prepared to take a strong stand in 1970. Such forces for fundamental revision of prices led to the negotiation of the overall Tehran Agreement of 1971.

Yet that very agreement showed how little the fundamentals had been understood. As a result of changing perceptions of power which seemed revolutionary at the time, it set prices to rise from $1.80 to only $3.00 per barrel over a period of four years. Power was perceived as in balance between producers and consumers. But this perception was wrong, as the events of 1973 and 1974 were so quickly to demonstrate.

III

The recovery from the mild recession of 1971 caused non-communist world oil demand to rise by three mb/d between mid-1972 and mid-1973 to a total of 48 mb/d. Indigenous U.S. supplies were now in decline. Venezuela, following the decline in exploration efforts, had diminished reserves and therefore reduced its production. Libya had chosen to cut back production since it did not need the revenues. In the face of the Venezuelan and Libyan

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reductions, overall demand on OPEC nevertheless grew by an unprecedented four mb/d between mid-1972 and mid-1973 to a level of 31 mb/d. Despite an all-out buildup in the Persian Gulf, supplies became very tight. Under such increasing supply tensions, the events of 1973–74 might well have been inevitable, even without the Yom Kippur War.

Such circumstances placed all of the producers in a very powerful position, and the power was greatest for those who did not need all their oil revenues for normal development. But the Yom Kippur War was the trigger for change, and oil was used as a weapon. Resource factors of power were used in opposition to military factors of power, and to a large extent were seen to triumph. In the United States, it is widely believed that the outcome of the war would have been very similar even if the oil weapon had not been used. Even if this is correct, it is not the issue. What does matter is the world's sudden change in perception of the power of the oil producers.

The initial reaction in the Middle East was dramatic, but subsequent repercussions were much wider, and they influenced behavior throughout the world. Perceptions of the balance of producer and consumer power changed so drastically that within a month the U.S. antitrust laws were relaxed, and the multinational oil companies were allowed to meet to consider what they could offer to OPEC. The long-term costs of premium alternatives, then seen as some $7.00 to $9.00 per barrel of "oil equivalent" (in current dollars), were discussed as a possible ceiling. But OPEC broke off negotiations and set a price of $10.50, well above this level. In the ensuing panic to obtain supplies, cooperation between consumers broke down and bids in excess of $20.00 were made for marginal supplies. OPEC had been made very powerful indeed.

With such fundamental changes in perceptions and beliefs, the power of the multinationals appeared finally to be broken. OPEC resource power had effectively overcome consumer economic power in addition to neutralizing a military imbalance. It was indeed a heady triumph for OPEC. But did anyone really understand what was happening? In retrospect it can be seen that very few people did.

IV

It might have been supposed that, once OPEC had demonstrated its power to control volume and prices in 1973–74, the price of oil would simply have been related closely with the cost

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of premium alternatives—a measure any orthodox economist would have recognized. In practice, this would have meant price rises substantially exceeding the pace of inflation (whether measured in terms of the dollar or some broad average).

Yet in practice, in real terms of the reciprocal purchases they could command, oil prices dropped considerably from 1974 to the fall of 1978. Whereas the estimated cost of premium alternatives rose dramatically, in part because of more realistic studies—to a level of $20–$25 or even more per barrel of oil equivalent (again in current dollars)—the price of oil rose only to $12–$13 per barrel, an increase substantially less than the rate of inflation of the dollar currency in which prices continued to be quoted.

It seemed that the price of oil had little to do with market forces. While a few economic analysts in the industrialized countries have argued that substantial production at moderate prices was a reasonable market decision—that it optimized revenues over the long term in the light of the discount factors affecting future value—this kind of calculation had little influence on OPEC thinking. Indeed, most OPEC countries arrived at the opposite judgment, that the future value of oil left in the ground would actually be greater, notwithstanding discount factors, than its present sales value. The factors that affected OPEC's price decisions, and the production policies of its members, in fact, were largely political.

Perhaps one of the best understandings of OPEC as a political organization and not an economic cartel was provided by a Venezuelan, Arturo Uslar Pietri.

> The problem resides in the fact that OPEC, as an organization, is somewhat *sui generis*, so that it becomes difficult to apply to it the rules and characteristics one would use to define a cartel as such. Cartels stem from agreements between companies with monopoly objectives for the maintenance of price levels or the carving up of markets. OPEC is not a cartel in this sense but is far more complex in that it is not an agreement among companies, but among countries, among governments. Apart from economic goals, governments have political interests and tendencies as well as domestic political realities which are rarely the same in every country. OPEC suffers from the peculiarity of not being an association of companies with a common economic goal but rather a group of countries with, primarily and fundamentally, political objectives ... and certain economic goals on which they may coincide. It would be unrealistic to imagine that the members of OPEC will be guided at all times by considerations arising exclusively from economic needs as, say, the cartel which operated potash operations in the world some forty years ago.[5]

[5] Alfredo Peña, *Conversaciones con Uslár Pietri*, Caracas: Editorial Ateneo De Caracas, 1978 (present author's translation).

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First and most obviously, whereas an economic cartel would have little concern for the economic health of its customers, with OPEC it was necessarily different. There could be no doubt that the world economic systems had been severely strained by the sudden increase in energy prices in 1973–74. Many people in and out of OPEC doubted that this was the basic cause of the recession; much more likely it was the last straw. But the camel's back was taking a long time to mend. Both the developed world and the non-oil developing countries had been greatly shaken.

Second, in response to domestic political demand or, in a few cases, to visions of new political power in regional or even global terms, OPEC countries entered upon very fast and very extensive industrialization programs, and in so doing became dependent on the energy consumers for technology, capital goods and, in some cases, cash. Some OPEC members, notably Saudi Arabia and Iran, had also become highly dependent on the United States for massive armament programs. Almost all the members of OPEC needed short-term revenues increasingly as time went on.

Third, key OPEC members needed the support of the West, and especially of the United States, for their security and for their political objectives. In effect, what in the hands of a true cartel might have been an unfettered exercise of economic power was restrained and counterbalanced by political factors; the price of oil came to reflect at least a temporary political balance of power.

As events unfolded, things did not go too well for the producer countries. Far from the monetary surpluses which followed 1974, most oil-producing countries were again in deficit. Libya and Algeria remained the hawks of OPEC, but their power had greatly diminished. OPEC itself experienced great tensions, with most members seeking higher prices; they were restrained, however, first by Saudi Arabia and then, for a time, by Iran.

In 1976–77, the situation reached a point where a duality of prices prevailed for a time—with a separate Saudi price acting as a brake—but the problem was finally resolved. OPEC is highly valued by its members, who had learned that hanging together was preferable to being hanged separately. Although Saudi Arabia was and is widely perceived as being able to control prices for the entire world, with that perception of power the Saudis had also assumed a great responsibility.

By the fall of 1978, most of the OPEC members were deeply disappointed with what had happened since 1974 and with their apparent lack of power to change things. Despite the fact that the West, and especially the United States, had done little to change

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energy policies, and despite continued economic weakness, somehow the relative power of the consumers to influence the price-setters, OPEC, appeared to have risen. It seemed that OPEC countries had fallen into the trap of giving much of their newly obtained power back, increasing the power of others.

In practice, Saudi Arabia had controlled prices very much as the United States might have wished, despite the fact that Saudi Arabia's goals with respect to Israel were far from achieved. The question arose of why or how the power had been handed back. Was it voluntarily, a new mistake or a new allegiance? Could it have been a conscious gesture? A Venezuelan proverb warns: "When you kill a tiger, don't be afraid of its skin." Most of the OPEC members were very dissatisfied with events, but indeed may have been afraid of the tiger's skin.

Yet the consumers remained dependent on OPEC oil. While their economic growth had been sharply reduced, the demand for OPEC oil remained, and indeed U.S. imports increased markedly. The premium alternatives cost so much more that little had been done for the longer term. Perhaps the oil weapon had been temporarily defused but certainly it had not been dismantled. However, the political factors that appeared to have neutralized it were now taken for granted by most Western observers, along with the assumption of political stability of the key OPEC countries. As in 1971, a balance seemed to have been struck, at least on a short-term basis, and as in 1971, such a conclusion was wrong.

V

As the situation unfolded in 1975–78, thinking in the industrialized countries tended to focus on the short-term balance of supply and demand—again as though economics alone were the determining factor. Through 1977 the many studies of the world energy situation (OECD, CIA, Workshop of Alternative Energy Strategies, Exxon, Shell, etc.) seemed to reach a common scenario of "tight supplies," that is, that marginal volumes of oil would cease to be available to balance the energy market by sometime between the early 1980s and early 1990s. The question was indeed not if, but when, and how this would influence energy difficulties ahead, as the developing nations continued their efforts to break through, and the less-articulate majority of the people in the developed world made it increasingly clear to their representatives that they wanted growth. When the ability of oil to meet marginal demand ended somewhere between 1980 and 1995, something else would

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have to take on the job, but all of the potential alternatives—synthetics from coal or shale, nuclear and solar energy, alcohols from biomass, tidal power—cost very much more than oil.

Even this analysis failed to come to grips with central long-term questions. How was the world to develop these alternatives? When would the consumers take action if oil remained relatively cheap? What would happen after the current glut and as Saudi Arabia approached its maximum chosen rate of production?

And, by 1978, an alternative "complacency" scenario was receiving wide support. Studies by Petroleum Industry Research, Inc., the National Economic Research Associates, and S.R.I. International, among others, suggested that the "energy crisis" was an event of the past. The reasoning for complacency included a combination of factors such as increased estimates of the energy resource base and its rate of development, enhanced recovery and improved efficiency in use.

More fundamentally, the "complacency" scenario failed to take into account the real needs and desires of the developing countries, and even the needs of the less fortunate people within the industrialized countries themselves. There was a common, indeed crucial, expectation that the overall rate of economic growth, and hence energy demand, would be reduced. Such reasoning, however, condemned most of the underdeveloped world to remain poor, that is, not to achieve what the developed world now takes for granted.

It was forgotten that only a few generations ago most people in the now developed world were also poor, and that it has been economic growth and industrialization which have banished the poverty that existed in Europe well into this century. It has been stated clearly by C. P. Snow: "The industrial revolution looked very different according to whether one saw it from above or below. It looks very different today according to whether one sees it from Chelsea or from a village in Asia."[6] Walt Rostow quotes a black colleague: "The disadvantaged of this world are about to buy tickets for the show; they are quite unmoved by the affluent emerging from the theatre and pronouncing the show bad; they are determined to find out for themselves."[7]

There was and is a conscious or unconscious element of "pulling

[6] C. P. Snow, *The Two Cultures and the Scientific Revolution*, New York: Cambridge University Press, 1960, p. 29.

[7] W. W. Rostow, *The World Economy: History and Prospect*, Austin: The University of Texas Press, 1978, p. 575.

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up the drawbridge" by many who seek to diminish the goals of economic advancement. While this may be most common in the already developed world, it is also emerging in developing countries, particularly among the "haves" of those nations. They ignore the enormous inequalities of income distribution in their countries.

It is a rationalization of failure to propose a return to a bucolic society in a world with three times the population of 1900. Such attitudes are, in fact, remarkably similar to those of the "haves" of much of Europe at the end of the last century. They too were content with society and saw little need for change or growth. The turmoil of Europe over the last century was the result. At least in the United States, the dissatisfied could move west.

Such issues are very dangerous for the developing world of today. The have-nots now know there is a "show" to be enjoyed; they hear about it on the radio and some see it on television. Expectations of eventually being part of that show are present. If not relieved, the pressures will build up and eventually explode. It is all very well for the haves of the world to question whether the developing countries should seek consumer economies; they already have their educations, medical resources, cars, houses, and appliances. The rest of the world also wants those things, and industrialization is the only route to them.

The energy needs of the developing world may well have been grossly underestimated in most of the recent crop of energy studies. Thus one typical projection for the year 2000 provides for some 62 barrels of oil equivalent per year for each North American, some 32 barrels for each European, some 10 barrels for each citizen of OPEC countries, and perhaps four barrels each for people in the non-oil-producing developing countries! Can anyone really expect this to happen?

There was another fundamental flaw common to both the "tight supplies" and "complacency" analyses. From the standpoint of the consumers, the "tight supplies" model could be deemed preferable, in that it should logically lead to the development of more expensive alternatives to oil, so that the psychological impact of their future availability might help to hold the prices of imported oil lower for a longer time. But even this conclusion rests on an assumption that as long as marginal supplies of crude oil can be made available the producers will be prepared to meet any demand.

It was and is misleading to concentrate the debate on whether marginal supplies come to an end in the 1980s, the 1990s, or even in the next century. The alternative possibility that OPEC would

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not be prepared to supply the required volumes at existing prices, along with what might need to be done to motivate the OPEC countries to do so, has received comparatively little attention.

The North-South debate of 1975-1977 seemed more like going through the motions of discussion rather than a real attempt at achieving an understanding between developed and developing nations. Also, the potential use of oil as a catalyst for change was essentially neutralized.

Even procedurally, for the consumers to seek to use the International Energy Agency for the dialogue was and is not welcome to OPEC. Its members perceive the IEA as an instrument founded to counter their new strengths developed in 1973–74. No matter how reasonably the IEA behaves, this cannot change the perceptions of the producers or allay their fears.

But basically the problem remained that consumers and producers spoke different languages—the former mainly economic and the latter much more political. Most analyses from the consumer nations were based on economic considerations, which showed "clearly" the short-term damage higher oil prices would cause, and why in a period of glut (prior to the Iranian problem) OPEC should not raise its prices even enough to match inflation and the relative decline of the dollar. Of course the consumers' considerations are not solely economic, but it "just so happens" that their political aims and economic reasoning have pointed in the same direction.

OPEC nations became increasingly dissatisfied. Whatever the logic of the economic debate, the driving forces were still political realities in their countries. The high hopes of 1973–74 had been replaced by disappointments. The OPEC nations felt cheated, and still do. They knew that what they could buy with their revenues was a lot less than was expected. It may well be that some had spent their new wealth unwisely, but expectations had been aroused which were now unsatisfied—and these were a real source of political pressure at home.

The passion of the frustrations in producer countries had either not been recognized or not fully evaluated by the consumers. The force of emotion should not have been discounted, for it is very much a factor in politics. The political forces to raise prices were growing strong. If OPEC should use the present power of its members to control supplies, it could certainly start an upward trend in real prices without reaching levels where the diverse consumers would be able to agree on justification for effective retaliation, military or otherwise.

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In short, the underlying situation by the fall of 1978 was not one of balance, but one of tension and strain. A new situation had been created, and a new instability where no group was satisfied. This was a world in which power indeed appeared dispersed. Yet many groups perceived others as powerful, but not themselves. The developing countries saw the United States and Europe as having great power that could be used to hurt them or help them. Also, they saw the multinationals as powerful entities.

Paradoxically, the United States was concerned with its lack of power to get its own and the world's economy moving again. Indeed, it perceived its own power as being at a lower ebb than it had been for many years. The multinationals had never really believed in their power. Rather, they saw themselves as driven by the forces of the market and vulnerable to even the weakest national governments, who could nationalize them at a stroke—and had done so.

Within such a dispersal of power, the many holders of power, both social groups and nations, exerted power at different strengths and pulled in different directions. Even toward the end of 1978 it might have seemed that the forces were essentially balanced, and that society was changing only slowly. However, power can become polarized very rapidly, as has happened many times throughout history. The increasing level of dissatisfaction could well have been an early warning of change. Something had to give; all that was needed was a suitable push. Events in Iran provided that push, and the world is now in another cycle of rapid reaction as power has swung once again strongly toward the OPEC nations.

VI

The analogy between recent events and the so-called discontinuity of 1973–74 is remarkably close. Just as the Tehran Agreement of 1971 was planned to provide a moderate increase in real prices only to find itself overtaken by events, so the December 1978 pricing decision by OPEC also would have resulted in a moderate increase in real prices. Even this took the consumers by surprise and resulted in a flood of protest, mainly from the United States. However, the revolution in Iran and the cutting off of Iranian supplies soon overtook the implementation of the December decision and produced a much more drastic change. The reactions of the consumers did little to help their cause. They bid up spot crude prices to record levels, again repeating the experience of 1973–74. Sales at such prices, despite their tiny percentage

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of the market, received much media coverage in the producer nations, and gave rise to political pressure on producer governments to obtain the full market effects of these benefits for their people. Surcharges were the inevitable result.

When Iran returned to the market with only limited volumes but seeking very much higher prices than the other OPEC nations, the world faced the dilemma of whether or not to bid. For many companies, the penalties of not having oil were too great, significant volumes were purchased at around $18 per barrel, and spot prices continue to exceed $20. At the time of writing, negotiations for large Iranian volumes at prices between $16 and $17 are underway, well above the OPEC prices set in March of this year.

The adjustments are not yet over. U.S. companies, both by choice and apparently under some indirect influence from government, have been reluctant to bid in Iran. In the short term this may indeed have held prices down, but the result is that the building up of necessary stocks for inventory and reserves has been delayed. The stock situation is a real cause of anxiety to many, especially in the United States, and if continued into the autumn could cause a major market reaction, with even greater pressure on prices. The short-term prospect for 1979 must be one of instability, and power in the energy world lies firmly in OPEC hands.

If 1977 was the year of the "tight supplies" scenario, and 1978 the year of "complacency," then 1979 will surely become known for its concern with "instability." The growing awareness of the fragility of the world's supply system if only one of the major suppliers should experience internal difficulties is causing painful reappraisals. Could dissatisfaction with economic progress, or failure to achieve other national goals, be sufficient to affect any other supplier? Also, the Middle East conflict has not been settled. Instability is indeed a fair description of the current situation. It would be a surprise if the accommodation to change were not to continue for some time.

VII

Looking beyond the current situation, what further developments might lie ahead in the energy and power relationship? Perhaps two, or even three, possible scenarios can be envisaged.

The first is a continuation of the present, with instability remaining for a number of years, particularly should Iran continue to experience internal political problems. Indeed, in the current "tight supply" situation, it would only need one other major

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OPEC nation to encounter difficulties for any reason. Certainly it must be expected that the consuming nations are currently reevaluating their judgments of the long-term stability of each of the suppliers, and also their relationships with those whom they would judge to be the most reliable. However, it will take some time for any new assessment to be translated into political action, even given the necessary will to consider new accommodations with the suppliers.

Also, the political situation in the Middle East is far from resolved despite intensive efforts for an Arab-Israel agreement. As internal political pressures on Arab governments continue to build up, the prospects are that any available power sanctions might be used. These might well be cutbacks in production rather than outright suspension of supplies. They would certainly do little to improve stability.

For prices, the indications must be for continuing fluctuations as individual producers make their pricing decisions, with the overall outlook a rising trend. While power to control prices remains ultimately with the OPEC countries, the behavior of the consumers may be the key factor. Thus, at times of shortage or major uncertainty, if consumers bid prices beyond OPEC price settings, then it will only be a matter of time before the awareness in individual OPEC countries of the value of oil to the consumers is translated into political pressures to raise prices, then into individual surcharges and finally into a raised OPEC price.

Accompanying such a situation would be a climate of accusations by consumers and particularly consumer governments of price gouging and windfall profits against the oil companies, with calls for sanctions against them and the suppliers.

The "instability" scenario seems likely to continue for the balance of 1979 at least. Against such uncertainties, economic prospects cannot be other than difficult. The climate for international trade and for investment must be influenced by concerns to limit exposure and risk. Essentially, despite a widespread desire to stabilize the economic and energy situations, the power to do so would be beyond that of any of the parties involved. The impact on the economic situation of the developed countries, not to mention that of the non-oil-producing developing countries, can only be serious, over a short time frame. For the longer term, it would plainly be most unhealthy for all concerned.

The second scenario would be a return to the status quo, to relative stability in world oil trade, and oil prices, at whatever higher price level the market eventually settles, be it $16, $18 or,

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perhaps more likely, $20 per barrel. This new plateau would require a degree of stability in Iranian production sufficient to ensure production at moderate volumes, although below historic levels, and no other major supply upsets.

Resultant cutbacks in consumption, both as a shock reaction similar to 1975 until users become accustomed to higher prices, as well as from true demand elasticity and an economic slowdown, would remove the strain on supplies and allow a return to order. Indeed, a short-term oversupply situation could appear and with it, within a year or two, a resurgence of some form of the complacency scenario to "show" that there is no energy problem.

The world's economies would eventually accommodate the changes and commence a new and probably slower growth trend, but short-term prospects, especially due to the one-time but much heralded inflationary influence of the price increase, will have been damaged.

This scenario would also be expected to display the all too familiar polarization between producers and consumers. As long as the price plateau remains below the cost of alternatives, their development will remain inhibited, and even if crash programs were initiated by political forces, their time scale is so long that it would be the end of the 1980s before they had much effect on volume of demand. Consideration of prices would most likely return to the familiar short-term debate on current year settings and their influence on consumer economies.

But once again the problem would not have been faced in its fundamental aspects, and, of course, the strains will start to build up again for the next cycle of the energy confrontation.

While OPEC is a very loose association with sovereignty fully retained by each individual member, there are signs that it could choose to become a much more coherent force. Already the Arab members, and some other Arab states, have chosen to work together through the Organization of Arab Petroleum Exporting Countries (OAPEC). The OPEC nations could learn from history—that of the Texas Railroad Commission—and apply a much stricter system of pro-rationing and control of output. It would be difficult, but the possibility should never be ruled out. Under this scenario, the power to control prices remains with OPEC, but it carries the continuing responsibility to avoid serious damage to the world economy.

Or might a third scenario become possible? Might the world have finally learned enough from painful experience to make a "resolution" scenario credible? In such a scenario the energy

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power struggle would at last be resolved into a state of balance between the interests of the producers and consumers. Understanding the factors of power involved to achieve this is complex, yet never in the past did so many opportunities for analysis and understanding exist as there do today. Recent history has provided all of the necessary material—men should be able to draw the conclusions.

The consumer nations still do not realize that the OPEC nations are producing their irreplaceable resources much faster than they would choose based on long-term national considerations, or the concern in OPEC nations that their development needs have led them into this trap. Somehow the suppliers must back away before most of their oil is gone. Meanwhile, they must at least ensure adequate compensation in exchange for their oil, and they do not see that being achieved at prices well below the costs of alternatives. Instead they see OPEC subsidizing the developed world.

The producer countries have not helped their cause too much. The undreamed-of wealth after 1973 has, in many cases, not yet been well used to develop the infrastructure of these countries so that they can continue to produce wealth after the oil is gone; yet, for most, the years of financial surpluses are over. The producers' need was and is for long-term pricing and other contractual arrangements which would enable them to do a better job in developing their economies, but they remain far from certain what these are.

What is needed is a long-term understanding under which OPEC would now supply the volumes the world needs, at prices that consumers can afford in exchange for future considerations, financial assets, markets, prices, technology transfer and trade, in which the OPEC producers can have some confidence. There have been very few genuine efforts to understand or achieve such an accommodation.

On the one hand, the producers recognize their power to raise prices and to lower output—while at the same time they understand that their long-term interest lies in recognizing the need for the developed nations to continue their rate of growth, at a level that is not so low as to result in world stagnation. This could mean that some producing nations may have to make available their natural resources at a faster pace than required for the generation of the revenue necessary for the orderly economic development that will meet their political imperatives. And they need the cooperation of the industrialized consuming countries to achieve that kind of development.

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On the other hand, the consumers must turn increasingly to alternative sources to conventional oil supplies, and must adjust their economics to the use of such sources, while guaranteeing to the producers a mechanism that will return to them in the long term the revenues generated but not required in the short term.

This scenario recognizes that a period of transition is required before the objectives of producer and consumer countries reach, if not a perfect match, at least a workable arrangement. In this situation, as far as price is concerned, surely the course of reason is to have the price of oil determined by long-term considerations. The only meaningful long-term price is the cost of replacement of conventional oil by other premium alternatives that are effectively not limited by the availability of natural resources. And the least disruptive development would be for the real price of oil to rise gradually to that level—some $20–30 (in 1979 dollars)—over a period of, say, ten to fifteen years.

Such a scenario would mean higher prices coming about over a period of time that would permit the consumers, developed and developing, to adjust to them. If it was clear that this was in fact the price trend, it would ensure that the new and otherwise marginal alternatives to oil would be ready when needed. And, more basically, it would open the way to a stable balance of power between producers and consumers.

Unfortunately, no consumer government has yet been able to encourage this kind of thinking. The pressures of short-term considerations, such as this year's trade balance, are too great. The world's political systems have not as yet developed that far. The power of the consumers is concentrated on the short term to keep today's energy prices down as far as possible. The world and its power interactions still function within a very short-term horizon.

For such reasons, the credibility of the resolution scenario must be suspect. However, without the necessary understanding and accommodation of long-term issues so that a balance of power is achieved, the alternative will be a continuation of the now familiar cycles of growing strain and then painful adjustment under a ratchet of increasing prices—until at last the level of premium alternatives is reached. The problem is that this could be a long, painful and dangerous time for the world.

VIII

Let me turn now to the case of my own country, Venezuela, as an illustration of the problems both of power and adjustment that

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the producer countries have faced, and will face in the future.

In one respect, Venezuela is the classic case of an oil-producing country in which increased wealth led to development programs and social spending that could only be maintained by high and sustained oil revenues, leading in turn to a rate of production exceeding the long-term capacity of its conventional oil resources. A cumulative total of 34 billion barrels has already been produced from Venezuelan fields, leaving proven reserves of conventional oil at only 18 billion barrels. Necessarily, in recent years, Venezuela has first stabilized and then reduced its oil exports, from a peak of 3.4 mb/d in 1970, to a present level of two mb/d. This means that, although Venezuela was primarily responsible for the founding of OPEC and sees itself as an elder statesman of that organization, it is currently perceived as holding very little power on the world scene. And it has not achieved a solid overall economic base for continued growth.

In another respect, however, Venezuela represents the future—the development of premium alternatives to conventional oil. Its reserves of heavy oil are vast, and should logically be developed as oil prices rise worldwide. Yet the timely development of those resources raises the very questions of prospective price levels we have just been discussing. In a situation of perennial instability, or continued focus on short-term economic factors, those resources might not be brought into play as they should be, both for the sake of Venezuela and for the sake of the consuming countries that will need the heavy oil we can produce, notably the United States. And, finally, it so happens that the proper development of our heavy oil could be, unlike most oil development, substantially labor-intensive and thus satisfactory in terms of a long-term national development program.

To put in perspective the potential resources of heavy oil in Venezuela, perhaps we should give some relevant data. The oil is concentrated in what is known as the Orinoco Oil Belt, which is about 600 km. long and the width of which varies between 50 and 80 km. Oil in place has been estimated from a range of a possible 700 billion to as much as 3,000 billion barrels. Recoverable oil using primary methods can be estimated at around 10 per cent. Primary methods plus steam soak (the approved method used for many years in the recovery of heavy oil on the east coast of the Maracaibo Lake) could raise that to about 15 percent. Final recovery using steam soak and steam drive could be as high as 35 percent. Therefore, from the low combination of the lowest estimate of oil in place plus the lowest recovery factor using primary

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methods, to the high combination of the highest estimate of oil in place plus the most optimistic recovery numbers, we get a range of producible oil from 70 billion to 1,050 billion barrels. The latter figure is higher than the currently known world reserves of conventional oil, and several times those of Saudi Arabia. Whether Venezuela ultimately finds itself at the lower or at the higher end of the range—and it will probably be somewhere in between, tending toward the higher end—there is no doubt that the reserves are huge.

The costs, while subject to some uncertainty, are below those of Canada's heavy oil and tar sand projects and certainly well below any known oil alternatives such as liquefied coal, solar, etc. The initial investment required to generate one-barrel-per-day production ranges from $2,700 to $10,000, depending on whether primary or secondary recovery methods are utilized. This compares with an estimate of $16,000 per barrel a day for the Cold Lake Project in Canada. In certain experimental modules currently being developed, the cost per barrel a day for the case of steam drive is around $6,000.

In assessing per-barrel production costs, given most favorable conditions, where self-pressurization by structural collapse permits production by steam soaking, costs might be as low as two dollars per barrel. If steam drive is required, production costs might be six to eight dollars, including the use of perhaps one barrel in steam-raising for each three or four produced. Upgrading of the heavy oil initially produced (incidentally, the part of the production cycle that makes it more labor-intensive than simple drilling and pumping) could also cost three to five dollars for each barrel of product. However, the heavy residues and gas produced would provide the thermal requirements of production and upgrading.

In the end, a high quality synthetic crude, costing perhaps something in the range of five to 13 dollars per barrel, would move from the field. In terms of production facilities required and ease of production, it is perhaps worth mentioning that several tests on producing wells, of which some 140 have been drilled, resulted in a daily production range from around 45 b/d to a high of 430 b/d, with a gravity ranging between 8° API and 10° API. Therefore, from a point of view of technology of production, cost of adding reserves and cost of production, the Orinoco belt is undoubtedly the cheapest energy alternative to today's lighter crude oils.

Perhaps the most vital consideration is security of supply. Orinoco Belt oil requires a high capital investment prior to

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production and, as mentioned before, should be developed against long-term considerations. There is a great deal of work to be done. It has now been initiated and a full quantification of oil in place and best methods for its extraction has already started.

In order to change current perceptions of Venezuela's power, it is essential that the Oil Belt potential be perceived and believed. It will also require from Venezuela a coherent and credible explanation of its national needs, priorities and plans to achieve its goals. Notwithstanding all the efforts that are currently being made to quantify the resources of the Oil Belt, the dilemma of establishing a production policy which meets the country's best interests will be a continuing one in the absence of a global long-term energy policy. At the end of the day Venezuela wants development, which means the ability to transform natural resources or money into wealth. Theoretically, it should make no major difference whether natural resources are kept as an instrument of wealth or whether the money generated by the sale of those resources is used judiciously, except for the following issues:

(a) What is our guess on future world inflation and monetary policy?

(b) If too much money is available too soon, will the country fall again into the trap of too much expenditure at the wrong time on the wrong things?

(c) The really vital one: Will the world have a long-term energy policy that will assist the producing countries in correcting the potential problems mentioned in (a) and (b)?

However, in the short term, the important thing for Venezuela is that these resources are there. They can and should be made credible, and they should allow Venezuela to use the present value of the power of such resources for its immediate development. As in economics, power has a current value based on expectations of the future.

IX

Energy remains a sensitive focus of power interaction. There are, regrettably, few signs of long-term stabilization of the energy

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situation. The OPEC countries are still essentially developing countries and they have yet to understand fully how to use their power effectively. As long as the consumers are content to remain dependent rather than interdependent, they remain vulnerable and diminish their power. The present competition involving consumers, OPEC and the non-oil developing countries is destructive to all.

The world is producing wealth far below its potential—perhaps some 20 percent or $1,000 billion each year, below what would have been possible if growth had not been constrained since 1973. Interdependence is the only way out, but only the developed nations can really take the necessary steps leading to partnership with the developing world. This will be particularly difficult for the United States, whose whole history and culture have developed around independence rather than interdependence. However, the current position of the United States is close to a dependence on OPEC, and surely that is not something the United States will enjoy.

What has to be understood is that there is no balance between today's energy requirements of the developed nations and the need, in social, political or economic terms, to produce these same requirements by the underdeveloped world. If the industrialized world were to reduce consumption of natural resources in order to keep pace with the long-term resource extraction policies by the underdeveloped producer nations, then world growth would come to a standstill and stagnation would result. If the underdeveloped world were to produce its resources at the rate required by the developed nations, it would exhaust its one element of power, natural resources, and would still sit at the tail end of the growth line in the future. So it seems that the time frame against which these fundamental social and political decisions are being made is wrong. As we can see, whatever the oil price, it is a symptom, not a cause, of differing needs. The producers need the understanding of the consumers, for whatever short-term benefits can be obtained will be short-lived, as has been demonstrated by recent events.

Under current perceptions of power, long-term arrangements which correct the time-frame imbalances are difficult, since the representatives of current political systems live short political lives. There seems to be no answer but to change the perceptions of power—as a result of a recognition of the need to view them against a longer term time frame. Perhaps the institutions involved

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need not be changed. They could survive for a very long time if they were to change to a focus which is wide and long-term. For a long time the world has understood the need for a "master plan" that would include the have-nots of the planet in the benefits of growth. The alternative inevitably will be social upheaval. Of course, every generation believes this will never happen in its own lifetime but, with increased desire for continuing growth, we may be approaching the fatal date more quickly than we think.

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COMMENT AND CORRESPONDENCE

DIPLOMATISTS AT BAY

To the Editor:

Laurence Silberman, in his article "Toward Presidential Control of the State Department" in the Spring 1979 issue of *Foreign Affairs,* describes a Foreign Service very different from what I knew during a 26-year career.

Silberman depicts career officers as hostile to and uncooperative with political appointees. I served for 15 years with David Bruce (his first ambassadorial appointment), Henry Cabot Lodge, Adlai Stevenson, Arthur Goldberg, George Ball and George Bush, all political appointees. All were respected by their career staffs and had their full cooperation. Daniel Patrick Moynihan did not have trouble because he was a political appointee; it was his truculent style, unnecessarily antagonizing both friendly and neutral countries, that was so counterproductive at the United Nations. And it was Kissinger, not the career staff, who called "Enough!" (This will be borne out in my forthcoming book about the United States' permanent representatives.)

Mr. Silberman assumes that career officers lose touch with the American scene. This might have been true two decades ago, but rotation in home assignments is now a regular procedure. I agree with him that more of them should be detailed to other departments in Washington, with adequate incentives, despite the present bureaucratic obstacles.

I do not agree that junior Foreign Service officers have little opportunity to exercise judgment. He may be right about large posts in Europe, but in many small posts a junior officer has substantial responsibility. I did, as a young officer, in Stuttgart, Budapest and Vientiane (Laos).

Mr. Silberman's suggestion that the number of non-career ambassadors be limited to 15 or 20 will be most welcome to the career service, and it can be implemented without any new legislation or constitutional amendment. The President need only announce a policy and carry it out, making clear that the intent is to establish a precedent.

Nor does the President need any new authority to appoint Assistant Secretaries in order to control the State Department. Presidents have appointed non-career Assistant Secretaries, e.g., Averell Harriman and Mennen Williams, in the Kennedy Administration. True, Kennedy had problems with the State Department, but he had equally serious problems with Defense and the CIA, as Graham Allison has recorded. Presidents have also removed Assistant Secretaries to install their own (or the Secretary's) men, e.g., the posts for African and International Organization Affairs in the present Administration.

Certainly there are Foreign Service officers with deficiencies and hang-ups, but the rigorous selection and promotion procedures tend to weed out the incompetent. I have known inept lawyers, too, but I still would not choose an amateur to represent me in litigation.

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To the Editor:

Mr. Laurence Silberman's article, "Toward Presidential Control of the State Department," in your Spring 1979 issue, is based upon some weak assumptions, followed by dubious conclusions. For example, he says that "in fact, the Foreign Service was created . . . to bring our diplomatic personnel up to the professional standards of the Civil Service." While it is certainly true that the objective of the Rogers Act and later legislation was to create a professional career Foreign Service with a *structure* comparable to the Civil Service, it is difficult to find evidence of a desire to upgrade the *standards* of the Foreign Service. Indeed, there seems to have been considerable interest in a different set of standards. There was a clear interest in the development of an elite Foreign Service, although the intent was to establish a professional elite group based upon performance rather than Ivy League education or financial independence.

Mr. Silberman continues with the assertion that "the average American has a sounder instinctive grasp of the basic dynamics of foreign policy than he does of domestic macroeconomics. . . ." This is probably true. It is also true, however, that the average American lacks insight into the mechanics of achieving national objectives in foreign countries. Most Americans also suffer from a very short attention span for international political affairs. This can cause the public to develop simplistic conclusions about foreign policy objectives which are more closely related to the political framework of our own country than to the framework of the country in which those objectives must be pursued. The instincts of the public are hampered by the almost total lack of information about world developments, and thus cannot be the only basis for foreign policy initiatives even though the public role may be extensive.

The case of Patrick Hurley in China, cited by Mr. Silberman while explaining that the conflict between career officers and appointees can cause each to disregard the other, is relevant in several ways. At the risk of being tagged revisionist, I would suggest that the "old China hands" were thwarted in their pursuit of legitimate wartime objectives by the tendency of the American public to simplify the American stance toward communist movements. The attitudes toward the communists in China were based more strongly on the perceptions of communist objectives in America or the Soviet Union than on the political developments in China.

The validity of this argument is of little consequence at this time. The case of Ambassador Hurley raises the more interesting question of whether a politically appointed ambassador reflects the objectives of the President or the country more accurately than a career ambassador. There is good reason to suspect that the perceptions of Mr. Hurley regarding his objectives in China were colored by his own political prejudices to some extent, and that the hostility of the Foreign Service officers may have been rooted in a more accurate perception of our national objectives in China. Primarily, it may not have been a career versus appointee dispute.

The questions raised about the conservative performances of Foreign Service officers are puzzling. "The Foreign Service officer has a natural tendency toward caution; one advances in the Foreign Service by not making mistakes. It follows, then, that risk is to be avoided." This is bad? It sounds more like a definition of the fundamental differences between commercial and governmental managerial objectives. Governments are not really expected to take quick, bold, decisive actions. Their entire structure contemplates careful

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deliberation involving the broadest range of professional analysis. The objective is to avoid risks that are not vital to the national interest, and to avoid mistakes which might interfere with those interests. While such a structure does not lend itself to dramatic changes, it does reinforce the stability of the government.

It seems difficult to rationalize a system in which junior Foreign Service officers would be encouraged to try their hand at policy formulation, as Mr. Silberman almost suggests. The years of passing things up through channels and observing the results (or lack of same) are not wasted. It is important to know how to achieve objectives within a bureaucracy. The defense of American interests demands more than the ability to defend a personal belief in the manner of a political debate. The decision to follow a bold new course, such as the one outlined by Daniel Patrick Moynihan in his article, "The United States In Opposition" a few years ago, is not trivial. The validity of the proposal is insufficient. The policy must not only include a tangible objective and a tangible method for its pursuit, but also the firm support of the superiors who will have to defend that policy in the event of any setbacks.

It should not be necessary for the President to relinquish the flexibility of his powers of appointment to achieve an improved relationship with the State Department. This is not a matter of negotiation in which concessions are to be traded. Instead, it is a question of leadership. The President is indisputably in charge, but he cannot lead unless he has followers. He needs to work together with the Foreign Service for the achievement of his objectives even though he is under no legal compulsion to do so. It is simply a matter of good management.

Changes like this cannot be legislated into existence.

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RECENT BOOKS ON INTERNATIONAL RELATIONS

Edited by Lucy Edwards Despard

General: Political and Legal

John C. Campbell

LAW, LEGISLATION AND LIBERTY. VOL. III: THE POLITICAL ORDER OF A FREE PEOPLE. By F. A. Hayek. Chicago: University of Chicago Press, 1979, 244 pp. $14.00.

Readers of Hayek, pro and con, will find this final installment of his three-volume treatise on the philosophy of a free political and economic order familiar, but they will admire its logic, its conviction and its grace. Publication coincides with the author's 80th birthday.

ESSAYS ON HUMAN RIGHTS: CONTEMPORARY ISSUES AND JEWISH PERSPECTIVES. Edited by David Sidorsky. Philadelphia: Jewish Publication Society of America, 1979, 359 pp. $12.00

There may not be any reason to single out the Jewish more than any other perspective on human rights, but the connection has been a close one, historically and in international politics, and these essays, many by distinguished authors, have something significant to say.

SCHUTZ DER MENSCHEN IN BEWAFFNETEN KONFLIKTEN. By Otto Kimminich. Mainz: Matthias-Grünewald, 1979, 284 pp. DM. 29.50.

The protection of human rights in situations of armed conflict remains on the international law agenda following the Geneva diplomatic conference of 1974-77. The author, who is deeply concerned with the human problems involved, examines what has been done and what remains ahead in bringing the Geneva Convention abreast of the contemporary world.

REFERENDUMS. Edited by David Butler and Austin Ranney. Washington: American Enterprise Institute, 1978, 250 pp. $4.75 (Paper).

Use of the referendum as a device for the making or ratification of basic governmental decisions has gained in recent years. This book provides information on how and where it has been most frequently used and with what results. It pays relatively little attention to the possibility of referendums and plebiscites in dealing with disputes on regional autonomy or international disposition of territories.

THE NON-ALIGNED MOVEMENT. By Peter Willetts. New York: Nichols, 1978, 310 pp. $23.50.

NOTE—BY SPECIAL ARRANGEMENT WITH THE MCGRAW-HILL BOOKSTORE, READERS OF FOREIGN AFFAIRS MAY OBTAIN NEARLY ANY BOOK PUBLISHED IN THE UNITED STATES AT THE PUBLISHER'S REGULAR LIST PRICE. WITHIN THE U.S., PLEASE ADD 95¢ PER BOOK FOR POSTAGE PLUS APPROPRIATE SALES TAX. IF OUTSIDE, PLEASE ADD $1.50 PER BOOK FOR POSTAGE AND 95¢ PER ORDER FOR REGISTRATION. SEND ORDERS WITH CHECK OR MONEY ORDER TO: THE MCGRAW-HILL BOOKSTORE, 1221 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10020.

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Instead of dwelling on the wordy pronouncements of the countries which call themselves nonaligned, Peter Willetts has looked at their voting patterns in the U.N., their positions on East-West and North-South issues, and their relations with each other. His computations and tables lead to some interesting conclusions on what the movement really is, a de facto alliance though not of a military character.

ENCYCLOPEDIA OF THE THIRD WORLD. Edited by George Thomas Kurian. New York: Facts on File, 1978, 2 vols. $70.00.

The anticolonial revolution has continued to add to the world's sovereign states a bewildering number of new ones on which general knowledge is, to put it mildly, limited. Accordingly, if there is justification for singling out a particular segment of the world for an encyclopedia of this nature, the Third World is a good choice. Here one will find essential information on geography, population, government, economy, and other matters. The editors have given a liberal answer to the question of who belongs to the Third World. All of Latin America is in. Both North and South Korea are in. Turkey is in; Yugoslavia is out.

General: Military, Technological, and Scientific

Andrew J. Pierre

THE THIRD WORLD WAR: AUGUST 1985. By General Sir John Hackett and others. New York: Macmillan, 1979, 368 pp. $12.95.

Fanciful—or farsighted? Certainly thought-provoking, as intended. Writing in 1987 so as to put on record as quickly as possible the details of the war of two years earlier, a group of British strategists give a step-by-step account of what happened. Spurred by a combination of success in expanding their military influence abroad and failure to resolve political differences at home, a new Soviet leadership, less cautious than that of the 1970s, starts a conventional war in Europe. When the tide is turned without nuclear recourse through a massive reinforcement by sea from America, Moscow devastates Birmingham with a "demonstrative" nuclear strike, which in turn leads to the annihilation of Minsk, the disintegration of the Soviet leadership, and the termination of World War III. A "happy ending" with chilling afterthoughts about the "limits" of limited war.

DECISION-MAKING IN SOVIET WEAPONS PROCUREMENT. By Arthur J. Alexander. Adelphi paper No. 147-148. London: The International Institute for Strategic Studies, 1978, 65 pp.

The most detailed and informed study to date of this important subject. Alexander believes that the Soviet military buildup of the past 15 years has been characterized by incrementalism and conservatism, with the pace and direction almost entirely determined by the military establishment. Interference from the collective political leadership has been rare, but this could change in the coming decade with a new generation of leaders.

ATLANTIC COMMUNITY IN CRISIS: A REDEFINITION OF THE TRANSATLANTIC RELATIONSHIP. Edited by Walter F. Hahn and Robert L. Pfaltzgraff, Jr. Elmsford (N.Y.): Pergamon Press, 1979, 386 pp. $28.50.

A series of thematically linked essays on a wide range of European-American issues. The Atlantic Community is said to be facing "the most excruciating

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test" since the immediate postwar period, but the authors doubt that political and psychological trends will permit the success of any new, mobilizing appeal to pull it together.

THE MILITARY EQUATION IN NORTHEAST ASIA. By Stuart E. Johnson with Joseph A. Yager. Washington: Brookings, 1979, 87 pp. $2.95 (Paper).

After examining both the balance of military power in the area and the situations which might call for the use of armed force, the authors conclude that the U.S. military presence in Northeast Asia is excessive and wasteful. The recommendation to make significant reductions in U.S. ground forces in Korea and Japan and to scale down the forward deployment of aircraft carriers is sure to be controversial at a time when public opinion in the United States appears to be inclining toward a halt in the post-Vietnam curtailments.

ARMS TRANSFERS TO THE THIRD WORLD: THE MILITARY BUILDUP IN LESS INDUSTRIAL COUNTRIES. Edited by Uri Ra'anan, Robert L. Pfaltzgraff, Jr. and Geoffrey Kemp. Boulder (Colo.): Westview Press, 1979, 410 pp. $23.75.

A wide range of essays, many solid but some soft, originally presented at a 1976 conference at the Fletcher School.

NUCLEAR ARMS IN THE THIRD WORLD: U.S. POLICY DILEMMA. By Ernest W. Lefever. Washington: Brookings, 1979, 155 pp. $9.95 (Paper, $3.95).

A calm and reasoned study which emphasizes political palliatives rather than technical fixes to retard the spread of nuclear weapons. Reviewing the usual list of "high incentive" proliferators, Lefever concludes that a number are likely to acquire nuclear weapons by 2000, several in the coming years. Yet he sees little risk that the Soviet Union and the U.S. will be drawn catalytically into war through a regional conflict. He makes a persuasive argument for reinforcing U.S. security commitments so as to reduce the incentives to acquire nuclear weapons.

NUCLEAR POLICIES: FUEL WITHOUT THE BOMB. By Albert Wohlstetter and others. Cambridge: Ballinger, 1978, 128 pp. $15.00.

A collection of short essays which includes both primer-like discussions on many of the basic issues concerning nuclear nonproliferation and some sophisticated analyses. The two chapters by Victor Gilinsky, a Commissioner of the Nuclear Regulatory Commission, are noteworthy, but the most original contribution is that of Roberta Wohlstetter on the Canadian and American peaceful nuclear assistance to New Delhi, which ended with India's nuclear explosion in 1974.

FROM GUNS TO BUTTER. By Bernard Udis. Cambridge: Ballinger, 1978, 376 pp. $20.00

An ambitious if somewhat rambling study which deals with many questions: military procurement systems; the relationship between government and the private sector in high-technology industries; international collaboration in technology transfer; and problems of diversification, adjustment, and transferability of resources within the aerospace, electronic and nuclear industries. Many important issues are usefully raised but the book suffers from lack of a strong focus.

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DEFENSE POLITICS: A BUDGETARY PERSPECTIVE. By Arnold Kanter. Chicago: University of Chicago Press, 1979, 152 pp. $12.50.

A very skillful analysis of the civilian-military interaction and the bargaining process on defense budgets during the Eisenhower and Kennedy-Johnson periods which endeavors to shed light on how Presidents seek to persuade the bureaucracy to comply with their policies. Though slim and succinct, this book is intellectually weighty and will be long-lived.

THE CHANGING WORLD OF THE AMERICAN MILITARY. Edited by Franklin D. Margiotta. Boulder (Colo.); Westview Press, 1979, 488 pp. $22.00 (Paper, $10.75).

A large collection of essays, many of considerable value, on the diverse problems facing the American military profession. What comes through clearly is the multiplicity of challenges created by changing values, institutions undergoing transformation, and a more complex world environment.

General: Economic and Social

William Diebold, Jr.

FOREIGN STATE ENTERPRISES. By Douglas F. Lamont. New York: Basic Books, 1979, 272 pp. $11.95.

Do British Petroleum, the Canadian Development Corporation, the Dutch State Mines, Volkswagen, Renault and other companies wholly or partly owned by foreign governments constitute an economic and political threat to the U.S.? Professor Lamont thinks so, especially when they are internationally competitive and invest in the U.S. He has interesting and controversial material and raises policy proposals that need thinking about. However, this fresh and complicated subject requires fewer cries of alarm and more refined analysis than it gets here, especially as to the assumed strategies of foreign governments, the ability of the firms to serve both political and economic ends, and the relative power of all parties concerned.

REFLECTIONS OF INTERDEPENDENCE. By Marina v.N. Whitman. Pittsburgh: University of Pittsburgh Press, 1979, 316 pp. $15.95.

These nine papers written over 10 years are firmly held together by their focus on the consequences for theory and practice of the openness of national economies, and the resulting "policy interaction" coming from the effects of what happens in one on the others. The international monetary system, exchange rates and balance-of-payments adjustment are dominant themes. Her stint in government happily reaffirmed Professor Whitman's belief in the value of economic theory to the making of public policy and, as these papers show, she functions well on both levels. The introduction not only ties together the main themes, but very honestly remarks on assumptions or arguments she held in the past which she would now change.

WELFARE AND EFFICIENCY. By Theodore Geiger. Washington: National Planning Association, 1978, 152 pp. $7.00 (Paper).

Government provision of social services and the maintenance of income and job security for workers can contribute to productivity as well as equity. But at some point efficiency is likely to become impaired and concern for welfare becomes a force for protection against foreign competition. This interesting book traces this complex process in Germany, Britain, the Neth-

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erlands and the Scandinavian countries, and views with some alarm the possible effect of different forms of worker participation in management and ownership. The conclusions point to an OECD effort to comprehend the problems more thoroughly and reduce the risk of friction between the U.S. and Western Europe by understanding about subsidies, investment and the need for faster growth.

DISTORTION OR DEVELOPMENT? CONTENDING PERSPECTIVES ON THE MULTINATIONAL CORPORATION. By Thomas J. Biersteker. Cambridge: MIT Press, 1978, 199 pp. $17.50.

Three admirable chapters parse the arguments of the *dependencia* critics of multinational enterprises and those of the analysts of the "neoconventional" school (Raymond Vernon, *et al.*) to see where they actually contradict each other. The effort to evaluate the contending propositions by studying four industries in Nigeria, though painstakingly done, is something of a letdown.

INTERNATIONAL INEQUALITY AND NATIONAL POVERTY. By Keith Griffin. New York: Holmes & Meier, 1979, 191 pp. $25.00.

Calling himself a dissenter from the view that "international economic interchange improves the world allocation of resources," Mr. Griffin of Oxford argues that in fact it exacerbates international inequality and perpetuates dependence for poor countries. Nine papers deal vigorously with different aspects of the dual topic set out in the title. The demonstrations bearing on poverty within developing countries are more persuasive than those which seem tantamount to saying that no real national development can take place.

U.S.-CANADIAN ENERGY TRADE: A STUDY OF CHANGING RELATIONSHIPS. By Helmut J. Frank and John J. Schanz, Jr. Boulder (Colo.): Westview Press, 1978, 136 pp. $14.00.

Why the energy policies (such as they were) of Canada and the United States diverged and then collided only to find areas of common interest in the latter 1970s. This excellent and concise analysis ends in early 1978.

RAW MATERIALS AND PACIFIC ECONOMIC INTEGRATION. By John Crawford and Saburo Okita. Vancouver: University of British Columbia Press, 1978, 336 pp. $30.00.

Though raw materials play a prominent part in this volume (the product of a large set of studies and discussions), there is also a much broader and most significant focus on the nature of interdependence in the Pacific region, especially between Australia and Japan.

THE REGIONAL THEORY OF WORLD TRADE. By Andreas Grotewold. Grove City (Pa.): Ptolemy Press, 1979, 86 pp. $8.45.

The analysis is cast in terms of core industries and peripheral ones instead of central and peripheral areas but the results are hardly distinguishable from generally accepted views about the place of industrial (and rich) countries in world trade.

TARIFFS, QUOTAS AND TRADE: THE POLITICS OF PROTECTIONISM. By the Institute for Contemporary Studies. San Francisco: Institute for Contemporary Studies, 1979, 330 pp. $6.95 (Paper).

A good collection, mixing familiar people with some new ones.

LDC EXTERNAL DEBT AND THE WORLD ECONOMY. Edited by

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Miguel S. Wionczek. Mexico: El Colegio de Mexico, 1978, 477 pp.

Able people from North and South, and of a variety of points of view, dealt at considerable length with the debt problems of the developing countries at a conference held in Mexico late in 1977.

WÄHRUNGSRISIKO UND WÄHRUNGSVERHALTEN DEUTSCHER UNTERNEHMEN IN AUSSENHANDEL. By Hans-Eckart Scharrer and others. Hamburg: Weltarchiv, 1978, 438 pp., DM. 43.

Interviews, questionnaires and unpublished data have gone into making this detailed survey of how German firms handle foreign exchange problems in a world of floating rates, and what the managers think ought to be done by the central bank to help them.

THE UNITED STATES AND WORLD DEVELOPMENT: AGENDA 1979. By Martin M. McLaughlin and the staff of the Overseas Development Council. New York: Praeger, 1979, 268 pp. $5.95 (Paper).

This year's issue of a useful annual asks how to get some satisfactory results out of the North-South discussion, and what to discuss.

THE GLOBAL PREDICAMENT: ECOLOGICAL PERSPECTIVES ON WORLD ORDER. Edited by David W. Orr and Marvin S. Soroos. Chapel Hill: University of North Carolina Press, 1979, 398 pp. $19.00.

Food, energy, resources, fish, space, law, organization and environment are all dealt with by one author or another and an effort (perhaps unprecedented?) is made to develop a common perspective.

COLLECTED ECONOMIC ESSAYS. VOL. V: FURTHER ESSAYS ON ECONOMIC THEORY. VOL. VI: FURTHER ESSAYS ON APPLIED ECONOMICS. By Nicholas Kaldor. New York: Holmes & Meier, 1979, 2 vols. $21.75 each.

International issues and economic development are strongly represented in the "applied" part of the fifth and sixth volumes of the collected papers by the eminent British economist.

The United States

Gaddis Smith

THE IRONY OF VIETNAM: THE SYSTEM WORKED. By Leslie H. Gelb, with Richard K. Betts. Washington: Brookings, 1979, 397 pp. $14.95 (Paper, $5.95).

If an historian were allowed but one book on the American involvement in Vietnam, this would be it. It is simultaneously a history and an analysis of American decision-making and a valuable historiographical critique of the literature and interpretations of the subject. The main theme is the domination of American policy by the doctrine of containment, which "worked" throughout the period of American military involvement. The authors recommend that "Presidents should eschew ambitious new conceptual and overall policy doctrines"—such as undifferentiated "containment"—and that "dissent should be institutionalized by rewards and promotions." Gelb directed the compilation of the Pentagon Papers and is now director of politico-military affairs in the State Department.

MANY REASONS WHY: THE AMERICAN INVOLVEMENT IN VIET-

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NAM. By Michael Charlton and Anthony Moncrieff. New York: Hill and Wang, 1978, 250 pp. $10.00.

Expanded transcripts of interviews with 49 policymakers and close observers of the Vietnam conflict from 1945 to 1975, an outgrowth of 11 BBC programs broadcast in 1977. The majority of the speakers are American (Rusk, Lansdale, Westmoreland, etc.); some are French, Vietnamese, and British. An interesting and useful oral history.

BRINK: CUBAN MISSILE CRISIS, 1962. By David Detzer. New York: Crowell, 1979, 304 pp. $11.95.

A brisk, readable narrative based on a mass of published and interview data. The author avoids theorizing, but he does think that subsequent American toughness in Vietnam may have been, in part, the result of "lessons" learned in the missile crisis.

THE AMERICAN PRESIDENCY. By Richard M. Pious. New York: Basic Books, 1979, 491 pp. $16.00.

Each generation has its own prevailing view of the office of the American presidency. Recently we shuddered before the ogre of the "imperial presidency." Now we complain—to quote the author of this up-to-date and informed study—that "Presidents remain too weak to manage most problems until they get out of hand." Pious points to the President's constitutional prerogatives as the key to his power. It is by exercising these prerogatives that the President sets the agenda to which the other parts of the system react. Here is a post-Watergate book, a first-rate analysis of the present rather than a doleful autopsy.

DÉTENTE OR DEBACLE: COMMON SENSE IN U.S.-SOVIET RELATIONS. Edited by Fred Warner Neal. New York: Norton (for the American Committee on East-West Accord), 1979, 108 pp. $10.95.

Pithy essays by distinguished commentators including Les Aspin, John Kenneth Galbraith, George F. Kennan, George Kistiakowsky and David Riesman. The authors lament the rising obstacles to détente and argue for a less censorious American approach to the Soviet Union. Riesman, for one, sees the human rights campaign as a threat to further agreements on nuclear weapons.

TO SET THE RECORD STRAIGHT. By John J. Sirica. New York: Norton, 1979, 394 pp. $15.00.

Judge Sirica was a boxer in his youth. He pulls no punches in this blunt, honest account of his thoughts and actions during the Watergate trials. He does not hide his contempt for the contemptible.

TRAVELS WITH HENRY. By Richard Valeriani. Boston: Houghton Mifflin, 1979, 400 pp. $12.95.

This is a Henry Kissinger joke book, fun to read for a few minutes at a time, yet often providing insight into serious matters. The author is the veteran NBC correspondent who travelled 500,000 miles with the former Secretary of State.

THE POWERS THAT BE. By David Halberstam. New York: Knopf, 1979, 771 pp. $15.00

In 1972 Halberstam's *The Best and the Brightest* significantly altered perceptions of the behavior of U.S. leaders in relation to the Vietnam War. This

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book attempts to do the same for an understanding of those who own, manage, and write and speak for the politically powerful news media. It is based on the same prodigiously extensive interviewing and effective use of anecdotes, and yet it is less successful because of the absence of a compelling, unifying theme beyond the incontestable assertion that the big media have altered the political system. The volume is really four books with chapters shuffled like a deck of cards: one suit for CBS, one for *Time*, one for the Washington *Post*, one for the Los Angeles *Times* (plus a single chapter—the wild card?—on *The New York Times*).

ADVENTURES OF A BYSTANDER. By Peter F. Drucker. New York: Harper, 1979, 344 pp. $12.95.

These are fascinating sketches of men and women who, since the 1920s, have influenced and been influenced by the author. Chapters on Fritz Kraemer ("the man who invented Kissinger"), Henry Luce and Alfred Sloan are especially good. The diffident word "bystander" in the title should be taken with a smile.

FRANKLIN D. ROOSEVELT AND AMERICAN FOREIGN POLICY, 1932-1945. By Robert Dalleck. New York: Oxford University Press, 1979, 624 pp. $19.95.

A long-awaited comprehensive treatment of all of FDR's foreign policy. The author emphasizes that there was considerable deliberation and conscious guile behind Roosevelt's seemingly casual and superficial behavior. He also sees Roosevelt as much less trusting of Stalin and the Soviet Union and more in accord with Churchill than have most historians. A solid summary based on original research and judicious use of the enormous secondary literature, although relatively too much space is devoted to the 1930s with the result that the treatment of World War II is a bit rushed.

AMERICAN CAESAR: DOUGLAS MACARTHUR, 1880-1964. By William Manchester. Boston: Little, Brown; 1978, 793 pp. $15.00.

The fullest biography yet of America's most dramatized (by himself and others) military leader. Ideologues of the Right will find the portrait too disparaging and those of the Left, too flattering. That is the price the author pays for presenting MacArthur as he was: simultaneously hateful and inspiring, direct and untrustworthy, realistic and obsessively romantic.

ABOUT FACE: THE CHINA DECISION AND ITS CONSEQUENCES. Edited by John Tierney, Jr. New Rochelle (N.Y.): Arlington House, 1979, 444 pp. $14.95.

A well-edited collection of articles, essays and speeches deploring the withdrawal of U.S. recognition of Taiwan and the abrogation of the 1954 mutual defense treaty. Some of the pieces—Senator Barry Goldwater's essay on the constitutional and historical aspects of treaty abrogation, for example—are quite substantial.

THE U.S. CRUSADE IN CHINA, 1938-1945. By Michael Schaller. New York: Columbia University Press, 1979, 364 pp. $14.95.

A very competent account of American policy in China between the Japanese invasion and the end of World War II. One of the recurring themes is the poor quality of most of FDR's personal emissaries and advisers. Currie was superficial; Willkie was an uncritical admirer of Chiang Kai-shek; Hurley

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was vain, pompous and ignorant about China. Yet it was men such as these, not the professional foreign service and its many excellent China specialists, who helped shape much of U.S. policy in this period.

D.Z.

CHINA SCAPEGOAT: THE DIPLOMATIC ORDEAL OF JOHN CARTER VINCENT. By Gary May. Washington: New Republic Books, 1979, 294 pp. $15.95.

A scholarly and sympathetic biography of one of that band of American Foreign Service officers who, as victims of anti-communist hysteria, were purged from the government in the 1950s because in the 1940s they told the unpopular truth about China. This disgraceful story is well known. May, however, adds important details and gives us an excellent portrait of Vincent, a courageous man.

THE POLITICS OF WAR. By Walter Karp. New York: Harper, 1979, 416 pp. $15.00.

Karp belabors a straw man: the alleged failure of all previous historians to demonstrate the connection between domestic and foreign affairs. His own emphasis on party politics as the mainspring of foreign policy is interesting but simplistic. His denunciation of both the Spanish and First World Wars—the two wars, in his view, which "altered forever the political life of the American Republic"—is reminiscent of the isolationist sentiment of the 1930s.

THE RISE OF THEODORE ROOSEVELT. By Edmund Morris. New York: Coward, McCann & Geoghegan, 1979, 886 pp: $15.95

An exuberant, beautifully written and painstaking biography of Theodore Roosevelt from childhood to the eve of the presidency. Morris does not deny Roosevelt's arrogant egotism and his taste for violence, but basically this is an old-fashioned portrait of a heroic figure.

The Western Hemisphere

Robert D. Crassweller

ARGENTINA: A NATION AT THE CROSSROADS OF MYTH AND REALITY. By Ricardo Zinn. New York: Speller, 1979, 211 pp. $15.00 (Paper, $5.95).

Argentina, past and present, is depicted by a businessman, banker and onetime government adviser, writing in a personalized vein with a strong rightist tilt. Peronist populism and Marxist influence are rigorously assailed.

DEPENDENT DEVELOPMENT: THE ALLIANCE OF MULTINATIONAL, STATE, AND LOCAL CAPITAL IN BRAZIL. By Peter Evans. Princeton: Princeton University Press, 1979, 362 pp. $20.00 (Paper, $5.95).

The successful industrialization of Brazil, a strong "semi-periphery" state, is attributed to the country's incorporation into the world capitalist center as a result of a "triple alliance" of the state, international circles, and local elites, as sources of capital. The unity of the "alliance" will ensure sufficient economic surplus to satisfy mass demands for some time, but " . . . the redistribution of economic rewards and political power can only be postponed for a certain period." Class struggle and imperialism/dependency theory have shaped the author's approach.

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CHILE: THE LEGACY OF HISPANIC CAPITALISM. By Brian Loveman. New York: Oxford University Press, 1979, 429 pp. $13.95 (Paper, $4.95).

Strongly socialist in orientation and wholly partisan in its hostility to the present government, this account traces Chilean developments to mid-1978. To his credit, the author does not attribute the failure of Allende to U.S. meddling but to political ineptitude.

CARIBBEAN INTEGRATION: THE POLITICS OF REGIONALISM. By W. Andrew Axline. New York: Nichols, 1979, 233 pp. $23.50.

A solid review of integration theory and its application to the Caribbean, with full reference to the many obstacles—political and economic nationalism in particular. There is much discussion of "widening," which implies a purely market approach, as opposed to "deepening," which points to meaningful development through integration of production. An inherent obstacle is noted: "The logical relationship between widening and deepening is such that the further one goes down one path the harder it is to move down the other."

DON PEPE: A POLITICAL BIOGRAPHY OF JOSÉ FIGUERES OF COSTA RICA. By Charles D. Ameringer. Albuquerque: University of New Mexico Press, 1979, 324 pp. $16.50.

A lively biography, giving a balanced view of a fascinating, controversial and exasperating leader who has made immense national and regional contributions. The very human mingling of strength and weakness in Figueres is duly observed. Devoted to civil liberties and the democratic process, he was "... basically honest and unpretentious, although he believed that the line between right and wrong was wider for him because his intentions were good."

CUBA IN THE WORLD. Edited by Cole Blasier and Carmelo Mesa-Lago. Pittsburgh: University of Pittsburgh Press, 1979, 343 pp. $21.95.

The highly regarded editors have compiled 15 essays on various aspects of Cuba's political and economic participation in world affairs. One or more integrative chapters, weaving together the various strands, would have been helpful.

FROM COLONIALISM TO CO-OPERATIVE REPUBLIC: ASPECTS OF POLITICAL DEVELOPMENT IN GUYANA. By Harold Alexander Lutchman. Rio Piedras (P.R.): Institute of Caribbean Studies, University of Puerto Rico; 1978, 291 pp. $8.00 (Paper).

Fortified by optimism, the author provides history and prognosis from a socialist viewpoint. He believes that his political principles, in practice, can unite the nation, consolidate existing gains, and overcome internal and external divisive forces. It will be a large order.

Western Europe

Christoph Kimmich

LOOKING FOR EUROPE. *Daedalus:* Journal of the American Academy of Arts and Sciences, Vol. 108, No. 1 (Winter 1979), 210 pp. $4.00.

A synoptic view of Europe in our time—subdued, even pessimistic, quite unlike the rather sanguine view this journal put forth in a special issue some 15 years ago. Today's Europeans, seen as in transit to an unknown destination, are described as bewildered about fundamental issues and deeply uncertain about the future. Thoughtful and thought-provoking—though one wonders

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how much of this gloom is the result of disappointed expectations.

A CONTINENT ASTRAY: EUROPE 1970–1978. By Walter Laqueur. New York: Oxford University Press, 1979, 293 pp. $15.00.

Today's Europe, writes Laqueur, presents "a melancholic picture of fragmentation, internal squabbles, and aimlessness." He attributes this decline to economic recession, social problems, political polarization, and, at a deeper level, widespread cultural malaise, and he is pessimistic about Europe's chances for recovery. Laqueur is a seasoned commentator on contemporary affairs, and this appraisal of causes and trends, though at times cursory in its treatment of the facts, commands consideration, even respect.

EUROPE BETWEEN THE SUPERPOWERS: THE ENDURING BALANCE. By A. W. DePorte. New Haven: Yale University Press (a Council on Foreign Relations Book), 1979, 288 pp. $18.50.

DePorte has little patience with those who consider the present balance in Europe unstable and transitory. Taking the long view, he notes that the system has withstood successive challenges, and he sees no reason why it cannot survive indefinitely, since it serves the interests of the states that have the power to change it. A stimulating, original work, a model of how a historical approach may enlarge our understanding of the present.

EUROCOMMUNISM AND DÉTENTE. Edited by Rudolf L. Tökés. New York: New York University Press (a Council on Foreign Relations Book), 1979, 578 pp. $24.50 (Paper, $10.95).

Perhaps the best yet of the many recent books on Eurocommunism. In carefully coordinated chapters, the contributors analyze the development and dynamism of the Communist parties in Western Europe, examining the trend toward greater autonomy in national politics and in East-West relations. A concluding chapter examines the dilemmas Eurocommunism poses for the Atlantic Community and suggests ways of dealing with them.

EUROCOMMUNISM AND EUROSOCIALISM: THE LEFT CONFRONTS MODERNITY. Edited by Bernard E. Brown. New York: Cyrco Press, 1979, 408 pp. $18.95 (Paper, $9.95).

A volume of essays that takes a fresh look at an old problem—the impact of modernization on the Left in Europe. In a series of case studies (including, commendably, studies on Britain and on West Germany), the authors explore the changes which accelerating modernization has wrought among Europe's leftist parties since 1960. They conclude, not surprisingly, that the impact of modernization differs in each case, but that, as before, the Left is deeply ambivalent toward modernity.

L'URSS ET NOUS. By Alexandre Adler and others. Paris: Editions Socialees, 1978, 223 pp.

Five French Communists, responding to the party's decision to follow its own road to socialism, reassess "Soviet reality" and its relevance to France and the PCF. Primarily a contribution to intra-party debate, the book tackles tough questions and offers critical comments but in general eschews judgments.

NEVER AGAIN WITHOUT A RIFLE: THE ORIGINS OF ITALIAN TERRORISM. By Alessandro Silj. New York: Karz, 1979, 233 pp. $11.95.

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The intent here is to show that Italian terrorism is the product of indigenous conditions, not foreign conspiracy, and that the urban guerrillas are serious leftist revolutionaries, not fascists in disguise or bored middle-class youths. As proof, Silj offers several chapter-length biographies of leading members of the Red Brigades and the Armed Proletarian Nuclei, whose individual psychology and personal frustration led them to violence as the only way of altering the social and political system.

GERMANY 1866–1945. By Gordon A. Craig. New York: Oxford University Press, 1978, 825 pp. $19.95.

A massive work, tracing the history of Bismarck's Germany from its founding to its dissolution, by one of this country's foremost experts on German history. Craig writes in the traditional vein, stressing the impact of personalities on events, the possibilities of choice, the existence of turning points; but he does not neglect the underlying social or economic forces, and he is as much at home with culture and society as with politics and diplomacy. The book is well informed, highly readable, consistently interesting—a major contribution.

A BACKWARD LOOK. By Daniel Lang. New York: McGraw-Hill, 1979, 112 pp. $8.95.

For readers of Craig (above), this book will evoke certain echoes. Lang, who visited Germany to find out what today's Germans, looking back, make of the Nazi regime, finds comfortable generalizations and vague explanations—an index to the difficulty of coming to terms with a troublesome past. Brief, impressionistic, and written with compassion.

THE SECRETARY. By Jochen von Lang. New York: Random House, 1979, 430 pp. $15.95.

In life as in death, Martin Bormann remained a mystery. He rose through the ranks to become Hitler's right-hand man, wielded enormous power, yet was virtually unknown outside Hilter's entourage, and disappeared without trace in May 1945. This biography establishes that Bormann did commit suicide trying to escape from Berlin; beyond that it tells us little that was not already known.

EXPLODING STAR: A YOUNG AUSTRIAN AGAINST HITLER. By Fritz Molden. New York: Morrow, 1979, 280 pp. $10.00.

Fritz Molden, a prominent publisher in Austria, grew up in the political turbulence of interwar Vienna and came to play a major role in his country's resistance movement in World War II. As liaison with Allen Dulles and the OSS in Switzerland, he undertook various missions into German-occupied territory, gathering information and coordinating underground activity. His memoirs, on the bittersweet years of his youth and the dangers of living between two fronts, are vivid and evocative.

THE EVASIVE NEUTRAL: GERMANY, BRITAIN AND THE QUEST FOR A TURKISH ALLIANCE IN THE SECOND WORLD WAR. By Frank G. Weber. Columbia: University of Missouri Press, 1979, 244 pp. $19.50.

Turkey's wartime diplomacy was a tightrope act. Allied to Great Britain and courted by Nazi Germany, she committed herself to neither, preserving her neutrality and territorial integrity (if not her reputation). Weber's mono-

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graph, based largely on British and German sources, competently unravels a complex story.

The Soviet Union and Eastern Europe
John C. Campbell

RUSSIA'S ROAD TO THE COLD WAR. By Vojtech Mastny. New York: Columbia University Press, 1979, 409 pp. $16.95.

Professor Mastny's study goes more deeply into the Soviet side of wartime diplomacy than any prior work, using material never before brought together or fitted into so logical a pattern of historical interpretation. The story of how Stalin dealt with his Western allies is enriched by a wealth of information on how he dealt with the leaders and issues of Eastern Europe. The thoroughness of the inquiry compels us to respect the author's conclusions on Stalin's policy and diplomacy, on that of Churchill and of Roosevelt, and on the inevitability of the cold war.

RUSSIA AND THE UNITED STATES: U.S.-SOVIET RELATIONS FROM THE SOVIET POINT OF VIEW. By Nikolai V. Sivachev and Nikolai N. Yakovlev. Chicago: University of Chicago Press, 1979, 301 pp. $12.95.

One wonders whether all the effort and negotiation that were necessary to make possible this volume in the University of Chicago Press's series on "The United States in the World" were really worth it. The subtitle gives the key to the book's message and to its interpretation of 60 years of Soviet-American relations: a devotion to peaceful coexistence on the one side, and a striving for imperialist advantage on the other. Yet if this is not history, it is lively writing, much better than the usual canned output, by two Russians who know America well.

SOVIET BARGAINING BEHAVIOR: THE NUCLEAR TEST BAN CASE. By Christer Jönsson. New York: Columbia University Press, 1979, 266 pp. $13.50.

Some of the axioms of Soviet negotiating behavior long held by Americans are questioned by Jönsson in this original study of the 1958–1963 period. He also tries to judge the effect of the China factor and of differences and struggles within the Soviet leadership on the shifts in position on the test ban. More goes into this effort than comes out, but it is a worthwhile exercise.

EUROPEAN SECURITY AND CO-OPERATION. By D.M. Proektor and others. Moscow: Progress, 1978, 405 pp. (Chicago: Imported Publications, distributor, $4.75).

Soviet authors explain and defend the peace policies of the U.S.S.R. and the socialist states which, with the shift in the world balance of forces in favor of socialism, brought the West to CSCE, the Helsinki Final Act, and the possibilities of building a new structure of international relations in Europe.

HOW THE SOVIET UNION IS GOVERNED. By Jerry F. Hough and Merle Fainsod. Cambridge: Harvard University Press, 1979, 679 pp. $18.50.

Merle Fainsod's classic *How Russia Is Ruled* (1953) is here brought up to date and extensively revised by Jerry Hough, with new interpretations, new chapters, and new ideas. Hough declares himself a Fainsodian and keeps much of the earlier text, but his own contribution, focusing on the question of

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how the policy process actually works rather than on how the leadership maintains control, is a very considerable one. This book should serve both as a text for instruction and as a notable original—and sometimes controversial—inquiry into the realities of Soviet politics.

COMMISSARS, COMMANDERS, AND CIVILIAN AUTHORITY: THE STRUCTURE OF SOVIET MILITARY POLITICS. By Timothy J. Colton. Cambridge: Harvard University Press, 1979, 365 pp. $25.00.

With impressive knowledge of his subject Colton arrives at conclusions on military-political relations which are at variance with the received wisdom of others of the small band of Western scholars expert in this field. Specifically, he sees the party organs as not really controlling or monitoring the military but participating as partners in the system.

MUSLIM NATIONAL COMMUNISM IN THE SOVIET UNION: A REVOLUTIONARY STRATEGY FOR THE COLONIAL WORLD. By Alexandre A. Bennigsen and S. Enders Wimbush. Chicago: University of Chicago Press, 1979, 296 pp. $20.00.

Sultan Galiev, the leader and theorist of the marriage of nationalism and communism in Soviet Central Asia, was purged in the 1920s but receives his due in this enlightening book. His ideas are still a danger for the U.S.S.R., but they also have a persuasive message, as the authors show, for the Muslims of the Third World.

SOCIALISM, POLITICS, AND EQUALITY: HIERARCHY AND CHANGE IN EASTERN EUROPE AND THE USSR. By Walter D. Connor. New York: Columbia University Press, 1979, 389 pp. $20.00.

A comparative sociological study, necessarily general but drawing on apposite statistical material and research, of how Soviet and East European societies have been transformed by revolution, and of such factors as class, social mobility and equality in the present system called socialism. Careful in its analysis, cautious in its conclusions, the study is nevertheless a stimulus to thinking on potentially disruptive elements in the present structure.

THE ALTERNATIVE IN EASTERN EUROPE. By Rudolf Bahro. New York: NLB/Schocken, 1979, 460 pp. $19.50.

Bahro's devastating critique of the existing system in the U.S.S.R. and Eastern Europe had the effect of a bomb on the official Marxist intellectual establishment, particularly in East Germany, where he is now in prison. This translation of the original edition published in West Germany is to be welcomed.

ECONOMIC REFORM IN EAST GERMAN INDUSTRY. By Gert Leptin and Manfred Melzer. New York: Oxford University Press, 1979, 200 pp. $32.00.

The final study in the excellent series on East European economies initiated by the University of Glasgow. The "new economic system" of the 1960s is factually presented and fairly judged, and the authors also show how the reforms came to an end, giving way in the 1970s to short-term adaptation.

SINCE THE PRAGUE SPRING: CHARTER '77 AND THE CONTINUING STRUGGLE FOR HUMAN RIGHTS IN CZECHOSLOVAKIA. Edited by Hans-Peter Riese. New York: Random House, 1979, 288 pp. $10.00 (Paper, $4.95).

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A collection of letters and public statements of those Czechoslovaks who have tried to carry on with the principles of freedom in the decade since 1968.

THE BALTIC STATES IN PEACE AND WAR, 1917–1945. Edited by V. Stanley Vardys and Romuald J. Misiunas. University Park: Pennsylvania State University Press, 1978, 240 pp. $12.50.

Essays presented at a series of conferences on the three states of Estonia, Latvia and Lithuania. Not full or deep coverage but a welcome addition to the literature on a neglected subject.

JUGOSLAVIA, 1939–1941: DIPLOMAZIA DELLA NEUTRALITÀ. By Alfredo Breccia. Milan: Giuffrè, 1978, 811 pp.

Professor Breccia uses hitherto unavailable British, German and especially Italian material, plus the voluminous Yugoslav writing on the subject, to document a superb study, superseding all earlier ones, of the policies of all the interested powers, and of the crucial decisions surrounding Yugoslavia's efforts to stay neutral, its signature of the Tripartite Pact, and the coup of March 1941.

UNITED STATES FOREIGN POLICY TOWARD YUGOSLAVIA, 1943–1963. By David L. Larson. Washington: University Press of America, 1979, 392 pp. $11.75 (Paper).

A well-padded monograph which gives evidence of industry but hardly does justice to its subject in use of material (many sources recently made available are not used at all), organization, or policy analysis.

WORKERS' SELF-MANAGEMENT AND ORGANIZATIONAL POWER IN YUGOSLAVIA. Edited by Josip Obradović and William N. Dunn. Pittsburgh: Center for International Studies, University of Pittsburgh; 1978, 448 pp. $12.95 (paper).

The mystery which for most Western observers surrounds socialist self-management in Yugoslavia, where practice has often been obscured by clouds of theory, may be partially dispelled by this book, which is a collection mainly of translated pieces previously published in Yugoslavia. But some parts of it only deepen the mystery.

IMPERIALISM AND THE REVOLUTION. By Enver Hoxha. Chicago: World View Publications, 1979, 460 pp. $5.95 (Paper).

Albania's durable leader gives his countrymen and the world an authoritative exposition of the true Marxism-Leninism his party represents as it struggles against U.S. imperialism, Soviet social imperialism, and Chinese revisionism.

The Middle East and North Africa

John C. Campbell

THE SPHINX AND THE COMMISSAR: THE RISE AND FALL OF SOVIET INFLUENCE IN THE ARAB WORLD. By Mohamed Heikal. New York: Harper, 1979, 304 pp. $12.95.

The former editor of *Al-Ahram* continues his revelations of conversations in high places as he traces Soviet-Arab relations over two decades. He dwells on the many ways in which the Soviets misunderstood and miscalculated the affairs of the Middle East and ultimately found their policy "in ruins" as the

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result of the common aim of Henry Kissinger and Anwar Sadat to exclude them from the region.

PALESTINIEN SANS PATRIE. By Abou Iyad. Paris: Fayolle, 1978, 361 pp.

Much of the mystery surrounding El Fatah and the PLO is dispelled by these autobiographical revelations by one of Arafat's principal colleagues. The story, actually presented by Eric Rouleau of *Le Monde* from tapes of extensive conversations with Abou Iyad, is at the same time a declaration of faith and an amazingly frank account of the Palestinian "Resistance" in its relations with the Arab states and its underground war of terror with Israel.

THE LIMITS OF POWER: SOVIET POLICY IN THE MIDDLE EAST. Edited by Yaacov Ro'i. New York: St. Martin's, 1979, 376 pp. $22.50.

A work of high quality by Israeli scholars providing the most detailed picture available on how the U.S.S.R. has pursued its interests in the Middle East, with no great success, since the October War. As the region does not stand still, the limits evident in these recent years will bear periodic reassessment.

THE LIFE AND TIMES OF MENAHEM BEGIN. By Frank Gervasi. New York: Putnam, 1979, 382 pp. $12.95.

A veteran journalist, longtime friend of Israel and admirer of Begin, writes on the latter's political life in the form of "bio-history." More than a quickie for the American market, the book profits from Gervasi's personal ties with Israelis dating from the days before independence.

UNDERGROUND TO PALESTINE. By I.F. Stone. New York: Pantheon, 1978, 284 pp. $10.00.

The reissue of Stone's first-hand news stories on the movement of European Jews to Palestine in 1946 serves the purpose of confirming his credentials to speak his mind now in ways distasteful to the "establishment," as in his recent article "Confessions of a Jewish Dissident" (also reprinted here).

PLANNING THE FUTURE OF SAUDI ARABIA: A MODEL FOR ACHIEVING NATIONAL PRIORITIES. By Robert D. Crane. New York: Praeger, 1978, 241 pp.

An American investment banker and management expert with experience in the Middle East describes the second Saudi Five-Year Plan and its problems of management in the light of Saudi goals. His analysis of those goals, originally done under the aegis of the U.S.-Saudi Commission, forms the bulk of the book. A rather disjointed work, but interesting in being not just an application of Western thinking to the Saudi economy and society.

THE OLD SOCIAL CLASSES AND THE REVOLUTIONARY MOVEMENTS OF IRAQ. By Hanna Batatu. Princeton: Princeton University Press, 1979, 1184 pp. $75.00.

Years of research must have gone into this mammoth and costly volume on the society and politics of Iraq. The author concedes that the detail may seem excessive, but the very quantity of information gives the book inestimable value as a source. It contains, in what is really a book in itself, the most detailed history of the Iraqi Communist Party, or any Middle East Communist party, available. Particularly for the critical years surrounding the revolution of 1958 and its aftermath the author throws much light on the Communists'

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role and stresses their formidable popular appeal.

MIDDLE EAST CONTEMPORARY SURVEY. Edited by Colin Legum. New York: Holmes & Meier, 1979, 684 pp. $65.00.

The first volume in an ambitious annual undertaking covering main developments in the Middle East area, plus a country-by-country survey, for the period of 1976–77. It is essentially a product of the Shiloah Center in Tel Aviv, which put out the earlier *Middle East Record.* Israeli scholars have done all the country studies, but Legum's editorship and the collaboration of a few American and British authors make this an international enterprise.

Asia and the Pacific

Donald S. Zagoria

LAST QUARTER: THE NEXT TWENTY-FIVE YEARS IN ASIA AND THE PACIFIC. By Malcolm Booker. Melbourne (Australia): Melbourne University Press, 1978, 228 pp. (Forest Grove, Ore: ISBS, distributor, $20.00).

A retired Australian Foreign Service officer has written a provocative book on the strategic trends in the Pacific that are likely to shape the last quarter of the 20th century. He foresees a perilous conjunction of circumstances: the doubling of the population of Asia; an unavoidable energy shortage; the expansion of Soviet power and the fading of the American; and the reemergence of China. He urges the establishment of a regional collective security organization and the reorganization of the Australian armed services and defense industries. Although many of the ideas and recommendations are arguable, the book is rich in historical and geopolitical insight.

CHINA, THE UNITED NATIONS, AND WORLD ORDER. By Samuel S. Kim. Princeton: Princeton University Press, 1979, 581 pp. $32.50 (Paper, $12.50).

One of the best studies of Chinese foreign policy yet to appear, this book focuses in great detail on Chinese behavior at the United Nations. It is particularly rich in detail on Chinese attitudes toward international law and North-South issues.

CHINA'S WATERGATE: POLITICAL AND ECONOMIC CONFLICT IN CHINA, 1969–1977. By Leo Goodstadt. Atlantic Highlands (N.J.): Humanities Press, 1979, 219 pp. $16.00.

A well-informed re-creation by a longtime Hong Kong-based "China-watcher" of the power struggles in China in the years immediately prior to Mao's death. Unfortunately, the book concentrates almost exclusively on the struggle for power without analyzing in sufficient depth the economic, social and foreign policy context in which that struggle took place.

JAPAN, KOREA, AND CHINA: AMERICAN PERCEPTIONS AND POLICIES. By William Watts, George R. Packard, Ralph N. Clough and Robert B. Oxnam. Lexington (Mass.): Lexington Books, 1979, 154 pp. $15.95.

This is a reassuring book for those who believe that American ignorance about the outside world is an important part of our foreign policy problem. After surveying popular attitudes toward Japan, Korea and China, this Potomac Associates study concludes that "the level of realism, sophistication and pragmatic good sense ... tends to belie the notion that Americans are

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woefully ignorant of the world beyond their borders and naive in assessing national interests." Many Americans see Europe and Asia as areas of roughly equal importance to the U.S. The negative World War II stereotypes about Japan have given way to a markedly positive image. There is also clear evidence that the post-Vietnam aversion to U.S. military commitments is declining. A majority wants U.S. force commitments maintained at present levels or increased.

JAPAN AS NUMBER ONE. By Ezra F. Vogel. Cambridge: Harvard University Press, 1979, 272 pp. $12.50.

As Ambassador Reischauer says in the blurb for this fascinating and extremely important book, "Japan today has a more smoothly functioning society and an economy that is running rings around ours." Vogel's book helps explain why Japan is the most dynamic of all modern industrial nations. It argues that the primary reason for our chronic trade imbalance with Japan is Japanese superiority over the U.S. in industrial competitiveness. And it suggests how an understanding of the Japanese experience might assist America in overcoming some of its own societal and economic difficulties.

THE TEXTILE WRANGLE: CONFLICT IN JAPANESE-AMERICAN RELATIONS, 1969–1971. By I.M. Destler, Haruhiro Fukui and Hideo Sata. Ithaca (N.Y.): Cornell University Press, 1979, 394 pp. $19.50.

The result of six years of collaborative research by the Japanese and American co-authors, this study is a model of its kind. It describes in great detail how a dispute between two declining national textile industries was allowed to grow into a bitter struggle between two governments despite their clear interest in avoiding such a contest. Since U.S.-Japanese economic relations remain potentially so divisive because of the continuing trade imbalance, this should be required reading for all those involved in shaping those relations.

MARCOS AND MARTIAL LAW IN THE PHILIPPINES. Edited by David A. Rosenberg. Ithaca (N.Y.): Cornell University Press, 1979, 315 pp. $17.50.

A disappointing collection of essays on a potentially important theme: the Marcos administration's performance during martial law.

Africa

Jennifer Seymour Whitaker

TOWARDS SOCIALISM IN TANZANIA. Edited by Bismarck Mwansasu and Cranford Pratt. Toronto: University of Toronto Press, 1979, 243 pp. $20.00.

Whatever else it may or may not be, Tanzanian socialism cannot be called unexamined. This impressive interim report reflects the ongoing debate between two schools of thought characterized by the editors as "Marxist socialism"and "democratic socialism"—with the latter predominating here. A variety of indices and a welter of data are applied to answering the question of whether Tanzania is moving toward socialism and how its development path has affected popular welfare. Pratt's summation is particularly distinguished.

NAMIBIA OLD AND NEW. By Gerhard Tötemeyer. New York: St. Martin's,

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1979, 258 pp. $19.95.

This study, by a Namibian political scientist on the staff of South Africa's Stellenbosch University, details Pretoria's unavailing efforts to foster the political ascendancy of conservative traditional rulers over Namibia's Ovamboland, and to establish the area as a "self-governing" independent territory. From this account it would appear that Namibian resentment of government authority, as applied through ineffective surrogates, extends significantly beyond those with close allegiance to the Ovambo-led SWAPO liberation group.

STEVE BIKO: BLACK CONSCIOUSNESS IN SOUTH AFRICA. Edited by Millard Arnold. New York: Random House, 1978, 298 pp. $12.95.
STEVE BIKO: I WRITE WHAT I LIKE. Edited by Aelred Stubbs. San Francisco: Harper, 1979, 224 pp. $8.95.

The publication of these books—enlarging the body of published writings and speeches by Biko first tapped in Donald Woods' *Biko* (noted in *Foreign Affairs,* July 1978)—indicates a broad popular interest in the personality and ideas of the leader of the black consciousness movement in South Africa. Arnold presents the transcript of Biko's testimony at the 1976 trial of black consciousness leaders; Father Stubbs' collection of Biko's writings from 1969–72 is followed by a personal memoir of the Anglican priest's relationship with the black leader from 1973 to 1977, the period during which Biko was "banned."

RACE AND POLITICS IN SOUTH AFRICA. Edited by Ian Robertson and Phillip Whitten. New Brunswick (N.J.): Transaction, 1979, 273 pp. $12.95.

Several of these essays were published in the early 1970s and others apparently were written before the installation of the FRELIMO government in Mozambique in 1975: the book thus serves at one level as a particularly mortifying example of languid publishing processes. Much of the material on internal forces within South Africa and on prospects for revolutionary or evolutionary change (the best are by Heribert Adam, John Daniel and Randall Stokes) do stand the test of time, perhaps indicating that in South Africa *plus ça change. . . .*

REBEL PEOPLE: RHODESIA IN CRISIS. By Denis Hills. New York: Africana, 1978, 248 pp. $14.75.
THE WHITE TRIBES REVISITED. By Richard West. London: André Deutsch, 1978, 199 pp. £ 4.95.

Two seasoned British travelers offer rambling short takes on southern Africa sparked with local color. In the aftermath of his rescue from Idi Amin by the British Foreign Secretary, Hills writes of 15 months spent cataloguing Rhodesia's black-white relations—which he now views as irreparable—from the vantage point of an African teacher training college. West's peregrinations are largely, though not exclusively, spent peering keenly at the ironies of British and Afrikaner life in South Africa.

THE PRESS OF AFRICA: PERSECUTION AND PERSEVERENCE. By Frank Barton. New York: Africana, 1979, 304 pp. $29.50.

Many years' tenure with the press of Africa, a long memory for anecdote and an admiration—without edge—for journalistic courage enliven this chatty, informative account of Africa's journalists, constrained but not quenched by their state-controlled media.

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Janet Rigney

SOURCE MATERIAL

I. DOCUMENTS

Documents may be procured from the following: *United States:* Gov't Printing Office, Superintendent of Documents, Washington, D.C. 20402. *United Nations, International Court of Justice:* United Nations, Sales Section, New York 10017. *United Nations Educational, Scientific and Cultural Org.* and *Food and Agric. Org.:* Unipub, Inc., P.O. Box 433, New York 10016. *Int. Labor Office:* 917 15th St., N.W., Washington, D.C. 20005. *European Communities:* 2100 M St., N.W., Washington, D.C. 20037. *Organization for Economic Cooperation and Development:* 1750 Pennsylvania Ave., N.W., Washington, D.C. 20006. Washington imprints are Government Printing Office, and congressional documents, unless otherwise noted, are for the 95th Congress. New York imprints are United Nations, unless otherwise noted.

Africa

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